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**BANK OF TAIWAN**

**2003 ANNUAL REPORT**





# Foreword



**Mu-Tsai Chen, Chairman**

The global economy was shaken by the impact of the U.S.-Iraq war and the SARS epidemic in the first half of 2003, and in Taiwan the economy slowed down as well. Fortunately, these two negative impacts gradually dissipated and growth in private consumption and investment in the United States, Japan, and other countries turned upward again. This stimulated a stable recovery of the global economy, and Taiwan's economic skies brightened in the second half of the year as performance rebounded with a substantial expansion in imports and exports, industrial production, and consumption spending; real estate transactions warmed up and the stock market, driven by foreign investment, became more active. As a result, real economic growth for the year reached 3.24%.

The Central Bank continued to maintain a loose-money policy throughout 2003 to guard against deflation and facilitate the operation of economic activity; the annual growth of loans by major financial institutions turned from negative to positive in May, and the rate of growth expanded month by month. At the same time, the government continued carrying out a policy of financial reform and the loosening of controls; in addition to implementing the Act for Real Estate Securitization, which is designed to promote development of the capital market and boost real estate liquidity, the government also enacted the Organic Law for the Financial Supervisory Commission of the Executive Yuan in order to bring about the centralization of financial monitoring. Financial institutions were also urged to accelerate the disposition of bad debt, resulting in a drop of the non-performing-loan ratio in domestic banks from a peak of 8.04% in the first quarter of 2002 to 4.33% in the fourth quarter of 2003. Concrete results were seen in the reinforcement of the financial operations system, the bringing of order to financial market discipline, and the creation of a diversified financial environment.

In accordance with government planning, the Bank of Taiwan completed the process of corporatization on July 1, 2003 and is currently undergoing privatization. In the environment of loose capital and intense competition among financial institutions that prevailed over the past year, the Bank worked vigorously to expand loans to private companies and small-and-medium-sized businesses, and to strengthen the absorption of demand deposits, so as to improve its loan and deposit structure and lower operating costs. In addition, the Bank moved to reinforce its foundation for long-term sustainable development by exerting utmost efforts to the enhancement of asset quality. These efforts have brought the NPL ratio down from 2.90% at the end of 2002 to 2.17% at the end of 2003.





**Sheng-Yann Lii, President**

Thanks to outstanding leadership by the government, the long-term support and care of our customers, and the concerted efforts of our entire staff, the BOT has been able to achieve an excellent performance for many years. According to The Banker magazine's ranking of the world's top 1,000 banks, as published in its July 2003 issue, the BOT stood in 109th place in terms of Tier I capital, and 113th in terms of total assets. In the ranking by shareholder equity that was published in the June issue of Euromoney magazine, we were in 92nd place. In all three of the above rankings, we were first among all Taiwan banks.

The BOT has a brilliant history and has made outstanding contributions to Taiwan's financial and economic development. With the drastic changes taking place in the domestic and overseas financial environments in recent years, competition in the financial industry has intensified and the niche in policy-type business operations that we enjoyed in the past has gradually eroded. To break out of the ensuing difficult situation and assure our continued leadership in the financial industry, in the next year we will continue to direct our efforts toward carrying out the following enhancement measures aimed at heightening our competitiveness and laying down an operating base for high efficiency and profitability. (1) In the area of business, we will strive vigorously to promote loans to private companies and small-and-medium-sized enterprises, and to work in line with government policy in extending policy-type loans. (2) In the area of organization and strategy, we will actively carry on with the work of privatization and will carry out organizational readjustment as necessary so as to realize the results of enterprise operation. (3) In the field of management, we will hold firmly to our consistent principle of customer-oriented management and will continue organizing service quality activities. (4) In regard to internal controls and risk management, we will plan for the computerization of our auditing system and reinforce the system and its manpower; and we will work out measures for compliance with the capital adequacy requirements of the New Basel Accord. In addition to working in the directions described above, we will continue carrying through with our operating principles of "concern, efficiency, innovation, and soundness" as we step up the pace of our transition. Finally, we will make effective use of information technology to meet market needs and provide our customers with a more diversified range of services.

The background of the slide is a light gray world map. Overlaid on the map is a large, semi-transparent image of a classical building with many columns, resembling a bank or government building. In the foreground, there is a large, detailed image of a sundial. The sundial's face is inscribed with 'FEDERAL RESERVE NOTE' and 'UNITED STATES OF AMERICA'. The gnomon of the sundial is positioned over the building. The title 'General Status of the Bank' is written in a bold, blue, sans-serif font across the middle of the image, with a white outline.

# **General Status of the Bank**



**K. C. Wang, Executive Vice President**



**Wu-Shiung Chou, Executive Vice President**



**Tzer-Cheng Lo, Executive Vice President**



**Teh-Chien Su, Executive Vice President and General Auditor**

## **I. Introduction**

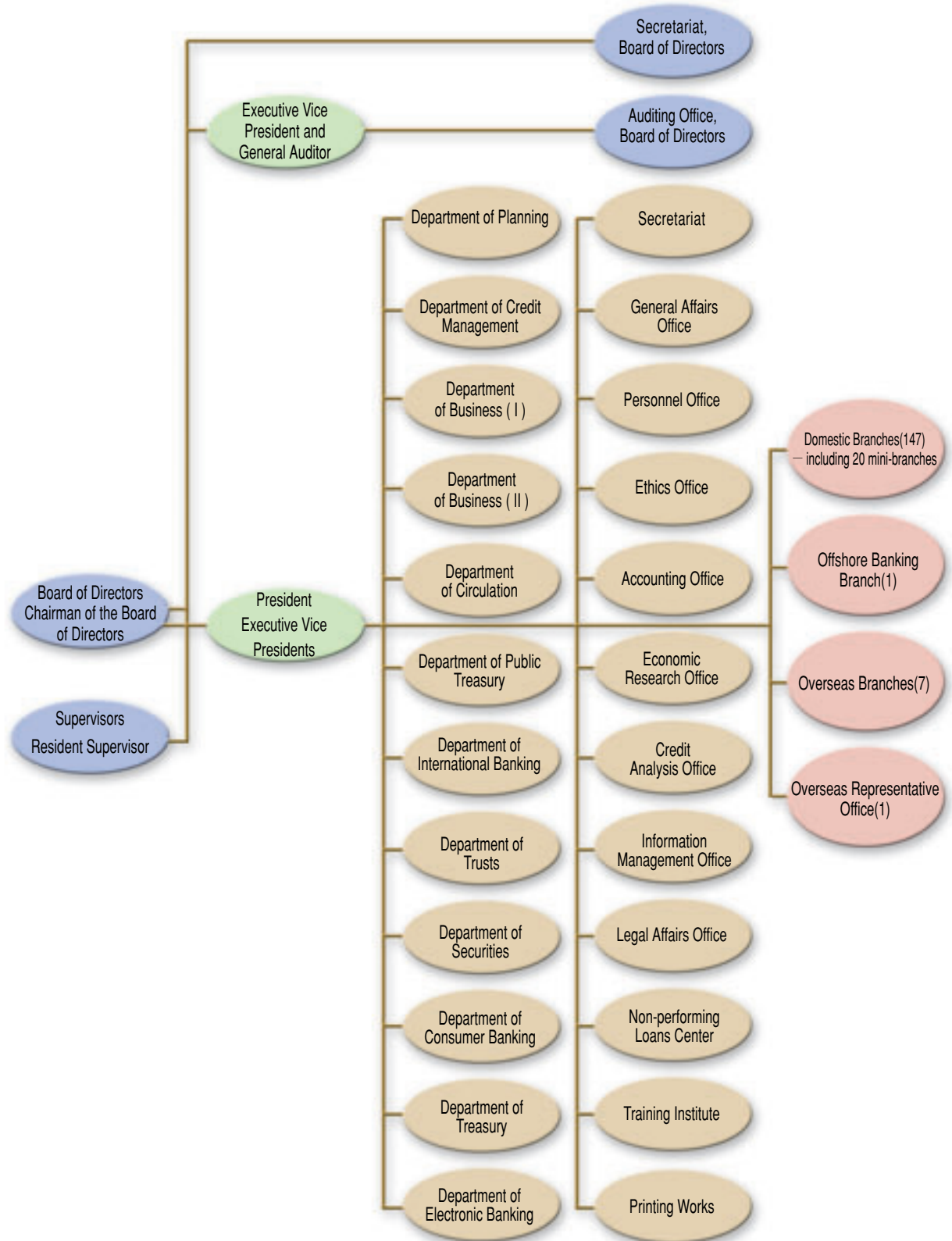
The Bank of Taiwan was established on May 20, 1946, as the first bank to be set up in Taiwan following the island's restoration to China at the end of World War II. It has now been in business for 57 years. It first operated under the administration of the Taiwan Provincial Government; however, with the downsizing of that government on Dec. 21, 1998, the Bank was taken over by the Central Government of the Republic of China and placed under the administration of the Ministry of Finance to be operated in accordance with the regulations governing government-owned financial institutions. On July 1, 2003 the Bank carried out company registration in accordance with the provisions of the Company Law and Banking Law, and was reorganized into a company limited by shares.

Ever since its establishment the BOT has operated the public treasury business, been commissioned to issue the New Taiwan Dollar currency, and handled various other businesses as agency of the national bank. In the initial period after the government moved to Taiwan in 1949 the BOT acted as agent for the Central Bank of China in carrying out most of the CBC's business, thus serving in the double role of a general commercial bank and a central bank. After the Central Bank resumed operation in Taiwan in July of 1961, the BOT turned its emphasis to the operation of the commercial banking business. After the Local Autonomy Law was enacted in July of 1994, provincial, county, and city governments were given the right to themselves appoint agency banks to handle deposits and loans on their behalf. Because it is a state-run bank with a long history, excellent credit rating, and stable operation, however, the BOT continues to handle the treasury business of all governments outside of Taipei and Kaohsiung cities. It has also been entrusted with numerous policy businesses such as those auxiliary to the issuance of the New Taiwan Dollar currency and the handling of preferential-interest deposits from retired military personnel, civil servants, and teachers. These operations indicate the crucial importance of the BOT's position in Taiwan's financial system.

## **II. Organization**

At the end of December 2003 the BOT's management organization consisted of 12 departments, 9 offices, one institute, one works, and one center. Its domestic business units covered all of Taiwan with 127 branches and 20 mini-branches; there was also an Offshore Banking Branch, as well as eight units in major international financial centers.

## ORGANIZATION CHART





## DIRECTORS, SUPERVISORS AND TOP MANAGERS

### 1. Directors and Supervisors

(As of Dec. 31, 2003)

Title	Name	Date of Appointment	Education	Career
Chairman	Mu-Tsai Chen	July 1, 2003	M.A. in Economics, National Taiwan University	Administrative Vice Minister, Ministry of Finance; Chairman, The Farmers Bank of China; Chairman, The Bankers Associations of the Republic of China
Managing Director	Sheng-Yann Lii	July 1, 2003	Ph.D. in Economics, University of Pittsburgh	Director General, Economic Research Dept., Director General, Banking Dept., The Central Bank of China
Managing Director	Chih-Hung Chang	July 1, 2003	MBA in Statistics, National Chengchi University	Director, Dept. of Budget, Accounting and Statistics, Kaohsiung Municipal Government; Director, Statistic Dept., Judicial Yuan
Managing Director	Tze-Kaing Yang	Sept. 5, 2003	Ph.D. Graduate School of Business Administration, National Chengchi University	Executive Vice President, China Development Industrial Bank (CDIB); Senior Executive Vice President, CDIB & Partners Investment Holding Corp; Political Vice Minister, Ministry of Finance
Managing Director	David M. Chen	Oct. 24, 2003	Ph.D. in Accounting, University of Illinois at Urbana-Champaign	Visiting Associate Professor, State University of New York at Buffalo; Professor, Graduate Institute of Accounting, National Chung-Cheng University Professor, Graduate Institute of Finance, Fu Jen Catholic University
Director	Ruey-Tsang Lee	July 1, 2003	M.A. in Land Economics National Chengchi University	Deputy Director General, Nation Property Bureau Director General, National Property Bureau
Director	Chia-Cheng Lin	July 1, 2003	Ph.D. in Political Science National Taiwan University	Deputy Mayor, Taipei City Government; Chairman, Research, Development and Evaluation Commission, Executive Yuan
Director	Hsiu-Hua Rau	July 1, 2003	Ph.D. in Economics Yale University, U.S.A.	Assistant Professor, Rice University, U.S.A.; Associate Professor, Department of International Trade, National Chengchi University
Director	Jin-Tung Lee	July 1, 2003	M.A. in Public Finance, National Chengchi University	Chairman, Chung Kuo Insurance Co., Ltd. Professor, National Chengchi University
Director	Yuh-San Liu	July 1, 2003	Ph.D. in Civil Engineering, National Cheng Kung University	Vice Chairman, Council for Economic Planning and Development, Executive Yuan; Deputy Secretary-General, Executive Yuan
Director	Shih-Hsin Huang	July 1, 2003	Dr. Institute of Public Finance, Kiel University(Germany)	Executive Office, Department of National Treasury, Ministry of Finance; Professor, Department of Public Finance, National Taipei University
Director	Yang-Tzong Tsay	July 1, 2003	Ph.D. in Accounting, University of Maryland at College Park, U.S.A.	Listing Review Committee Member, Taiwan Stock Exchange and OTC; Professor, Department of Accounting, National Taiwan University
Director	Tzer-Cheng Lo	July 1, 2003	M.A. in Economics, Chinese Culture University	SVP & GM of Department of Consumer Banking, SVP & CS of Secretariat, Board of Directors, Bank of Taiwan
Director	Tung-Yuan Cheng	July 1, 2003	B.A. in Business Administration, Feng Chia College	SVP & GM of Tai Nan Branch, Bank of Taiwan; SVP & GM of Secretariat, Bank of Taiwan; SVP & GM of Department of Business(1), Bank of Taiwan
Director	Hsin-Yi Hsu	July 1, 2003	Master of Meiji University Graduate School of Law, Japan	AVP & VP of Department of Business(1), Bank of Taiwan; SVP & GM of Legal Affairs Office, Bank of Taiwan
Resident Supervisor	Bing-Huang Shih	July 1, 2003	B.A. in International Trade Feng Chia University	Chief Secretary, DGBAS; Chairperson, Accounting Operation Unit, DGBAS; Director-general, Second Department, DGBAS
Supervisor	Huey-Jen Jong	July 1, 2003	M.A. in Accounting, National Chengchi University	Director, Commissioner, Vice Chairperson, The Securities and Futures Commission, Ministry of Finance
Supervisor	Chan-Jane Lin	July 1, 2003	Ph.D. in Accounting, University of Maryland, U.S.A.	Assistant Professor, George Washington University; Professor and Chairman, Department of Accounting, Acting Dean, College of Management, National Taiwan University
Supervisor	Fu-Deng Hsieh	July 1, 2003	M.A. in Accounting, National Chengchi University	Chief in Department of Accounting, Ministry of Economic Affairs; Chief in Department of Accounting, Ministry of Finance
Supervisor	Tzer-Ming Chu	July 1, 2003	M.D. in Law(Public Finance), National Chengchi University, Institute of Public Finance	Vice President & Chief Financial Officer, Bureau of National Health Insurance, Department of Health, Executive Yuan; Associate Professor, Department of Public Finance and Tax Administration, National Taipei College of Business

Note: The above directors and supervisors comprise the first Board of Directors and Supervisors appointed by the government following the Bank's reorganization as a company limited by shares.



## 2. Top Managers

(As of Dec. 31, 2003)

Title	Name	Date of Appointment	Education	Career
President	Sheng-Yann Lii	Sept. 3, 2001	Ph.D. in Economics, University of Pittsburgh	Director General, Economic Research Dept., Director General, Banking Dept., The Central Bank of China
Executive Vice President	K. C. Wang	July 16, 1997	Master of Science, North Dakota State University	SVP & GM of Los Angeles Branch, SVP & GM of New York Agency, Bank of Taiwan
Executive Vice President	Wu-Shiung Chou	Oct. 28, 1998	M.A. in Industrial Engineering and Management, Chung Hua University	SVP & GM of Personnel Office, SVP & GM of Savings Dept., Bank of Taiwan
Executive Vice President	Tzer-Cheng Lo	Aug. 22, 2003	M.A. in Economics, Chinese Culture University	SVP & GM of Department of Consumer Banking, SVP & CS of Secretariat, Board of Directors, Bank of Taiwan
Executive Vice President and General Auditor	Teh-Chien Su	Feb. 2, 2000	B.A. in Economics, National Taiwan University; attending Executive part-time MBA (EMBA) at College of Management, National Taiwan University	SVP & GM of Savings Dept., SVP & GM of Business Dept., Bank of Taiwan

Note: The Bank of Taiwan was reorganized as a company limited by shares on July 1, 2003, and the appointment of the pre-reorganization president, vice presidents, general auditor, and managers of the Bank's departments, offices, institute, center, and branches to continue in their original offices were approved by a resolution of the First Meeting of the First Board of Directors on that same day.

## III. Capital and Shares (Including Preferred Shares), Financial Debentures (Including Overseas Financial Debentures), and Participation in the Issuance of Global Depository Receipts

### 1. Capital and Shares

The BOT was established with capital allocated from the national treasury. Following numerous capital increases via the revaluation of assets and accumulated reserves, at the end of December 2003 the Bank's total capital stood at NT\$48.0 billion.

### 2. Financial Debentures

(None)

### 3. Participation in the Issuance of Global Depository Receipts

(None)



The Bank was reorganized into the form of a company limited by shares on July 1, 2003. Der-Shan Wang, Political Vice Minister of Finance (2nd left), Gary K. L. Tseng, Director General, Bureau of Monetary Affairs, Ministry of Finance (2nd right), Mu-Tsai Chen, Chairman of the Bank of Taiwan (left), and Sheng-Yann Lii, President of the Bank of Taiwan (right) preside over the unveiling of the Bank's new name plaque.

## IV. Business Report for 2003

### 1. Results of Business Plan Implementation

- (1) Two new branches were established, East Taoyuan and Luchou, and 15 sub-branches were reorganized into one branch and 14 mini-branches.
- (2) The payment of tax and utilities fees through account transfer was implemented, and the prearranged Internet payment of fees was inaugurated.
- (3) Euro combined products, US dollar combined products, and "Attack and Win" combined foreign-currency products were introduced.
- (4) Multiple foreign-currency consolidated passbooks were inaugurated.
- (5) With the approval of the Ministry of Finance, the BOT's foreign-exchange units and OBU inaugurated business relations with branches of foreign banks in mainland China and with mainland Chinese financial institutions and their overseas branches.
- (6) Approval was given by the Ministry of Finance for the BOT's Tokyo and Hong Kong branches to work with mainland Chinese financial institutions in accepting customer deposits, handling remittances, issuing letters of credit and notifications, carrying out import and export financing, and collecting payments.
- (7) These businesses were inaugurated: investment of non-discretionary trust funds in overseas securities-overseas linked bonds, investment of non-discretionary trust funds in overseas securities, investment of non-discretionary trust funds in domestic mutual funds, and Internet purchasing of funds.
- (8) The i-mode mobile banking business was inaugurated to provide inquiry and funds transfer using cell phones.
- (9) The BOT completed Economic Ministry e-commerce payment of fees and VAT rebates for foreign tourists operations, and handled consolidated income tax refunds.
- (10) A "Public Treasury Service Network" was inaugurated to give county and city treasury agencies integrated services for the flexible opening of bills documents and canceling accounts.

### 2. Budget Implementation

The average level of deposits in the Bank during 2003 was NT\$1,960,246 million, representing a target achievement ratio of 105.35%. The average amount of loans outstanding was NT\$1,142,762 million, for a target achievement ratio of 81.04%. Foreign exchange transactions carried out during the year amounted to US\$45,853 million, reaching 117.57% of the target.

### 3. Revenues, Expenditures, and Profitability

Operating revenue for the year amounted to NT\$64,720 million and operating expenses were NT\$61,868 million; operating income was NT\$2,852 million and net non-operating income (expenditure) amounted to NT\$4,251 million. Income before income tax was NT\$7,103 million and income tax amounted to NT\$1,659 million, leaving a net income of NT\$5,444 million.

The NT\$7,103 million in before-tax net income for the year was NT\$6,405 million less than the budgeted income of NT\$13,508 million. The main reason for this was a reduction in profit from long-term equity investment and bills dealing resulting from the poor economy.

Return on assets: The net income for the year was NT\$5,444 million, equal to 0.23% of the NT\$2,357,700 million in average total assets.

Return on shareholder equity: The net income for the year was NT\$5,444 million, equal to 3.21% of the average total shareholder equity of NT\$169,722 million.

## V. Business Plans for 2004

The BOT's business plans for 2004 have been formulated in accordance with enterprise plans approved by the Ministry of Finance, and in consideration of performance in past years as well as future development trends:

1. Operating efficiency will be enhanced and low-cost funds will be expanded so as to boost operating income.
2. The loan business will be actively promoted and the syndicated loan business will be pursued, as either lead bank or participant, and new loan products will be developed so as to upgrade the efficiency of funds utilization.
3. New types of foreign-exchange business will be developed and mutual support among domestic and overseas business units will be reinforced.
4. Trust, securities, and agency operations will be developed so as to expand the scope of business and of profit.
5. The securities certification, brokerage, and government bond proprietary dealing businesses will be strengthened so as to expand the scope of business and profit.
6. The e-banking business will be developed, the transaction security mechanism will be reinforced, and the efficiency of system implementation will be improved.
7. Business and management performance will be strengthened, the operating system will be bolstered, self-auditing will be carried through, and internal controls will be implemented effectively.
8. Idle land and land with a low rate of utilization will be disposed of or developed so as to upgrade the efficiency of real estate utilization.
9. The use and development of human resources will be strengthened, staff morale and loyalty will be enhanced, and business competitiveness will be improved.



Chairman Wen-Long Shi of Chi Mei Optoelectronics (6th left) and Chairman Mu-Tsai Chen of the Bank of Taiwan (7th left), representing the loan syndication group preside over the signing of a syndicated loan to Chi Mei.



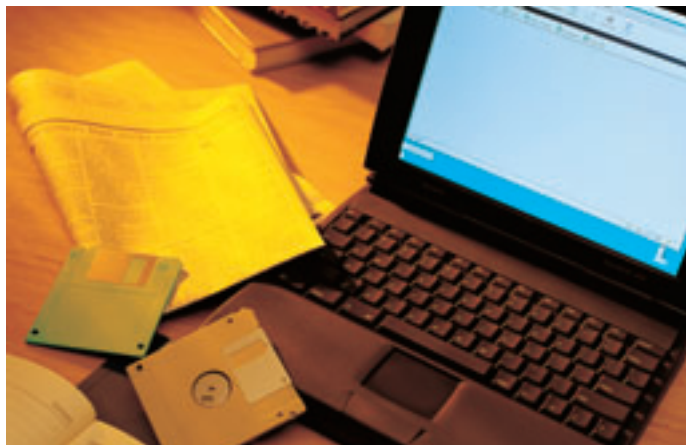
# **General Operating Conditions**



## I. Content of Business

### 1. Major Items of Business

- (1) Acceptance of deposits
- (2) Issuance of financial debentures
- (3) Extension of short- and medium-term loans, and discounting of bills
- (4) Investment in government bonds, short-term bills, corporate bonds, financial debentures, company shares, and domestic mutual fund beneficial certificates
- (5) Handling of domestic remittances
- (6) Handling of import and export exchange, general outward and inward remittances, foreign-currency deposits, foreign-currency loans, and guarantees for foreign currency payments
- (7) Handling of commercial bills acceptance and issuance of domestic and international letters of credit
- (8) Handling of domestic and overseas guarantees
- (9) Handling of collections and payments on commission
- (10) Sale and underwriting of government bonds, treasury bills, corporate bonds, and company shares
- (11) Handling of the credit card business
- (12) Handling of warehousing, safekeeping, and agency services related to the Bank's business
- (13) Proprietary dealing in government bonds
- (14) Short-term bills certification, underwriting, brokerage, and proprietary dealing
- (15) Businesses approved under the Trust Business Law
- (16) Underwriting and dealing in securities on behalf of the Bank itself or its customers
- (17) Handling of margin dealing in securities
- (18) Guaranteeing the issuance of corporate bonds
- (19) Serving as agency for government treasuries
- (20) Sale of government bonds, and making of principal and interest payments
- (21) Rental of safe deposit boxes
- (22) Factoring of receivables
- (23) Trading in financial derivative products approved by the central government authority
- (24) Buying, selling, and selling on commission of gold bullion, gold coins, and silver coins
- (25) Handling of businesses pertaining to the issuance of New Taiwan Dollars delegated by the Central Bank of China, and sale of commemorative coins
- (26) Other businesses approved by the Ministry of Finance or the Central Bank



## 2. Operating Ratios

Unit: NT\$ million

Items \ year	2003		2002	
	Amount	%	Amount	%
Interest Income	50,135	77.47	74,212	82.70
Service Income	1,814	2.80	1,684	1.88
Gain on Sale of Bills and Securities	11,509	17.78	9,956	11.10
Gain on Long-term Equity Investments	0	0	2,899	3.23
Foreign Exchange Gain	757	1.17	772	0.86
Others	505	0.78	208	0.23
Total	64,720	100.00	89,731	100.00

## 3. New Products Planned for Future Development

- (1) Streamlined financing for suppliers to blue-chip companies
- (2) Consolidated money-management home loans with strengthened packaging and marketing, and fixed-interest home loans
- (3) Planning and development of real estate trust and personal consolidated trust products
- (4) USD/RMB non-delivery forwards and non-delivery options, as well as new types of derivative foreign-currency products, to be introduced in 2004
- (5) Planning for the development of corporate online foreign exchange business systems, and provision to companies of complete online foreign exchange and domestic letter-of-credit services
- (6) Planning for the establishment of an integrated service system for corporate disbursements and receipts
- (7) Introduction, in line with the "Electronic Bidding System for Government Procurement" being promoted by the Public Construction Commission, of an electronic evidential documentation system for electronic bid bonds and guarantees
- (8) Planning for the establishment of a bank service system for the settlement of futures transactions, to facilitate the Bank's development into a clearing bank for transactions carried out on the Taiwan Futures Exchange
- (9) Planning and establishment of a multi-channel telephone, facsimile, e-mail, and simple messaging promotion and marketing platform for the provision of personalized value-added services to customers and marketing tools to the Bank's staff
- (10) Establishment of an electronic negotiable instruments information system in line with policy and the upgrading of the Bank's service functions
- (11) Planning for the establishment of Internet ATM, and addition of IC bank card identification in coordination with set-top box (STB) home banking and Internet banking
- (12) Planning for introduction of insurance products, establishment of a customer service center, and development of the personal investment and money management business

## II. Market and Business Conditions

### 1. Market Analysis

#### (1) Status of Development of the Banking Industry

To coordinate with Taiwan's accession to the World Trade Organization (WTO), and to observe the requirements of the General Agreement on Trade in Services (GATS), during the 1990s the government carried out financial reforms, instituted financial liberalization and internationalization measures, and implemented deregulation. Sixteen new banks were established beginning in 1991. In response to the trend toward the enlargement and operational diversification of financial institutions in recent years, the financial authorities passed the Financial Holding Company Law and

five other related laws in 2001. On Jan. 1, 2002 Taiwan became a member of the WTO as "the separate customs territory of Taiwan, Penghu, Kinmen, and Matsu." Approval has already been granted for the establishment of 14 domestic financial holding companies, which is adding to the pressure of business competition among banks. The development of the banking industry in Taiwan in recent years is briefly described below:

a. Domestic banks continue to play a vital role

According to statistics compiled by Taiwan's Central Bank of China, at the end of December 2003 the total number of headquarters and branches of all deposit money banks on the island stood at 6,363 (433 headquarters and 5,930 branches). Among this total there were only 105 headquarters and branches of foreign banks, while general domestic banks accounted for the greatest number, 2,929 or 46.03% of the total. Total deposits and loans outstanding in general domestic banks at the end of December 2003 stood at NT\$14,465.3 billion and NT\$12,171.2 billion, respectively, accounting for 80.89% and 86.03% of total deposits and loans in all deposit money banks. It is obvious that these banks continue to play a vital role in Taiwan's deposit money banks.

b. Electronic banking services

With the enhancement of communications and computer quality, the development of information technology has posed major challenges to traditional methods of banking operation and created another model for profit-making and competition. The banking industry of the future will be a high-tech service industry, and the victory will go to



those who can win the advantages of fast speed and low cost. Banks will have to increase their investment in information hardware and software that will enable them to provide rapid, low-cost, and secure services.

c. Establishment of financial holding companies

The implementation of the Financial Holding Company Law in July of 2001 aroused a fever for financial holding companies, and the establishment of 14 financial holding companies has been approved so far. The cross-industry marketing and integration of financial products has already brought severe challenges to banks that hold only to the traditional ways of doing business. In addition, the Ministry of Finance announced the Standards for the Cooperative Promotion of Products or the Provision of Services by Banking, Securities, and Insurance Institutions on July 1, 2003; and although the breadth and depth of the resulting cross-industry sales do not yet equal those of the financial subsidiaries of financial holding companies, this can, to some extent, increase the scope of business of financial enterprises that are not affiliated with financial holding companies. With suitable planning and utilization, this will help to increase sources of commission income.

d. Development of the mainland Chinese banking market

Cross-straits economic and trade activities are intensifying by the day, and the government is moving to gradually open up direct cross-straits trade and meet the demand for financial services arising from domestic companies engaging in cross-straits trade and investing in the mainland. The Ministry of Finance revised the Regulations Governing Approvals of Banks to Engage in Financial Activities Between the Taiwan Area and the Mainland Area in November 2001, allowing OBUs to have direct correspondent banking relations with financial institutions in the mainland. To strengthen the provision of financial

services to Taiwanese companies, the BOT has applied to the mainland financial authorities to establish a representative office in Shanghai. In the future, the mainland Chinese market will be a key focus of development for financial institutions.

## **(2) Status of Competition**

### **a. Increase in financial institutions**

In response to competitive pressure in the financial industry following Taiwan's accession to the WTO, the government has accelerated the implementation of financial liberalization and internationalization measures including the opening of the establishment of private banks, permission for trust companies to reorganize as commercial banks, and flexible relaxation of the establishment of branches. As a result, the financial market has already been transformed from the oligopoly of the past to almost full competition today, and the high degree of business similarity has led to intense competition and improved service quality. However it has also made it more difficult for banks to promote their business and make a profit.

### **b. Writing off of bad debt and enhancement of asset quality**

All-out efforts by the government to carry out financial reform have brought about an improvement in the quality of the assets of financial institutions. From 1999 to the end of December 2003, the real accumulated writing off of bad debt by domestic banks amounted to NT\$1,211.2 billion-about 8.64 times the increased profits of NT\$140.2 billion that banks earned during that period because of the reduction in their business taxes and the lowering of their deposit reserve requirements. The amount of non-performing loans dropped from a peak of NT\$1,147.6 billion in March of 2002 to NT\$630.6 billion at the end of December 2003, bringing the NPL ratio down from a peak of 8.04% at the end of March 2002 to 4.33% at the end of December 2003.

### **c. The threat of direct financing to the growth of the traditional deposit and loan business**

Following the gradually opening of the financial market there has been booming development in such primary-market instruments as corporate bonds, bankers' acceptances, and commercial bills. Since the cost of financing in the capital market is relatively low, large enterprises are continuing their tilt toward direct financing. According to statistics from the Central Bank, the ratio of direct financing soared from 11.01% at the end of 1994 to 28.75% at the end of 2003, showing the steady shrinkage of the intermediary function of banks.

## **(3) Favorable and Unfavorable Factors for Development**

The BOT is a state-run domestic bank with a long history. In addition to handling general banking businesses like those of other banks, the BOT has also shouldered policy-type businesses such as policy loans and preferential-interest deposits for retired personnel. While these have brought a considerable amount of business volume, the low-price competition policy adopted by other banks has caused a steady erosion of the Bank's original business niche. Other difficulties include the need for the BOT to send its budgets to legislative agencies for review, the legal restrictions that are imposed on its use of personnel, and the requirement to carry out procurement in accordance with the Government Procurement Law. Compared with private banks in Taiwan, therefore, the BOT is lacking in operating flexibility.





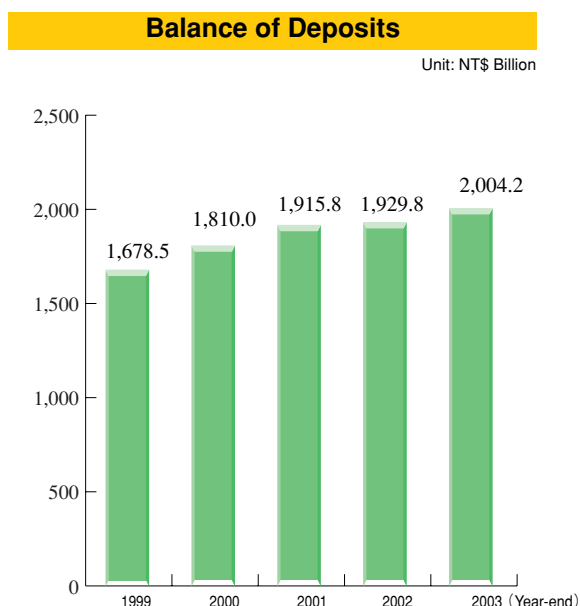
Factors that are favorable and unfavorable to the BOT in comparison with other domestic banks are enumerated below:

a. Favorable factors

- \* Long history, outstanding reputation, a comprehensive domestic branch network, and the general approbation of the nation's people
- \* Excellent operating performance throughout the years, healthy financial structure, and sound operating foundation
- \* Excellent credit rating, which lowers the cost of raising foreign-currency funds
- \* Close relations with government agencies, which facilitates the promotion of business relations
- \* A complete training system that provides a uniform quality of employees

b. Unfavorable factors

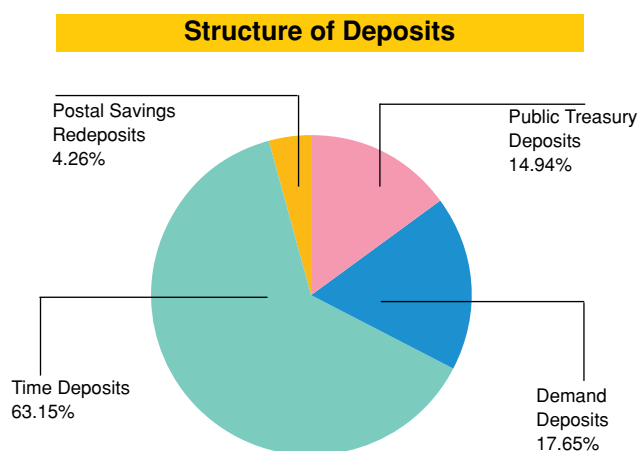
- \* Legal restrictions on budgets, the use of personnel, and procurement, causing a lack of operational flexibility
- \* The establishment of domestic financial holding companies with cross-industry operation and a diversified product range, which imposes pressure on the BOT's future business development
- \* Insufficient development of new products and the need for the BOT to strengthen its business innovation capability, marketing skills, and product packaging capability
- \* The narrowing of the interest rate spread, leading to a slippage of profitability, and the difficult of improving profitability because of the booming development of direct financing
- \* The relative strength of foreign banks and certain new domestic banks in consumer financing, which poses a threat to the BOT's existing business



## 2. General Banking Operations

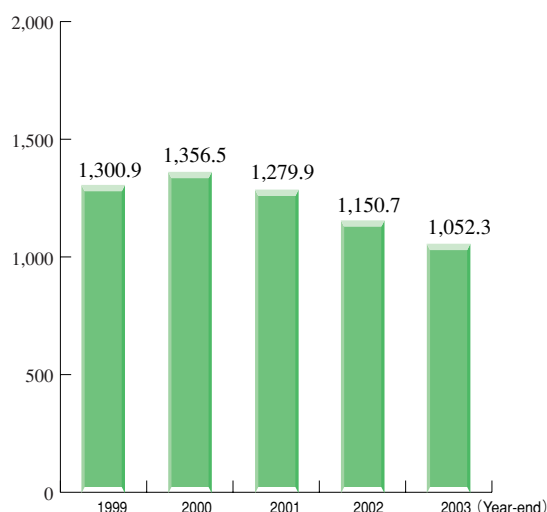
### (1) Deposits

In response to the age of micro-profits in the banking industry, the BOT has worked vigorously to develop demand deposits and checking deposits; it has also instituted revenue-enhancement and economizing measures with the aim of increasing commission income and lowering costs. For example, fees are collected as soon as a depositor applies for service, the book-transfer of mature government bond futures business has been introduced, "six-in-one bills collection trading" and funds transfer via media exchange were implemented, preparations were made for the establishment of a "bills clearing bank," and plans were mapped out for the inauguration of the electronic checking business.

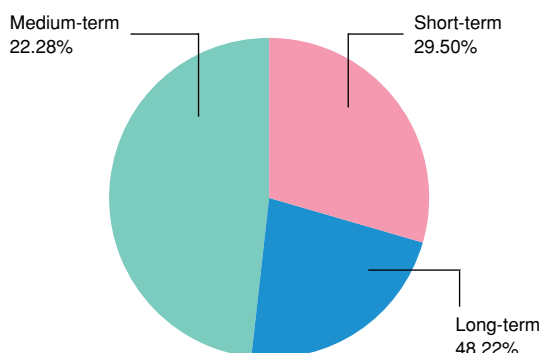


### Balance of Loans

Unit: NT\$ Billion



### Structure of Loans (by term)



## (2) Loans

The factoring business was launched in 2003, the provision of preferential financing to small and medium enterprises was continued, loans for the upgrading of SMEs were extended, small SME loans were offered, special loans for the rooting of SMEs were handled, and start-up micro-financing was offered. In addition, the BOT coordinated with government policy in implementing the NT\$1,250 billion in loans to traditional industries, loans to private enterprise for the procurement of pollution-prevention equipment, preferential loans for the revitalization of traditional industries, and other special types of financing.

To satisfy the diversified needs of consumers, the Bank provides all kinds of consumer loans. In addition to continuing its coordination with the government's policies of promoting education and

helping the children of medium- and low-income families complete their education, the BOT handles student loans and offers preferential interest rate consumer loans for civil servants, teachers, and the personnel of state-run enterprises, low-interest "Honor" loans, and low-interest consumer loans for outstanding enterprise personnel. The response to these three types of low-interest loans has been enthusiastic.

## (3) International Operations and Offshore Banking

The BOT was the first bank in Taiwan to engage in foreign-exchange business, and its correspondent banking network now covers the globe. At the end of 2003 this network consisted of 2,753 banks in 132 countries. The Bank is also aggressively establishing offshore business units; a preparatory office for a Shanghai representative office has been set up in Hong Kong, and the upgrading of the London Representative Office into a branch is under way.

The "One Passbook, Multiple Foreign Currencies Consolidated Foreign Currency Passbook" was inaugurated in 2003, giving a boost to foreign-currency deposits in the BOT and its OBU, and two-month combined euro products, US dollar products, and "Attack and Win" combined products were introduced in March and May. These new products have been successful in raising funds.

In line with the government policy of internationalization and with the global trend toward financial liberalization, the BOT's OBU has continued to provide companies investing offshore and offshore customers with the remittance services they need for the allocation of funds and for their investment. The Bank has also carried on its coordination with different business units in handling import and export financing, loan extension, and outward remittances for offshore clients, and it has promoted the factoring business and USD/RMB non-delivery forwards trading.

#### (4) Trust and Securities

The Bank's trust business consists primarily of money trust, and during this year it continued handling the investment of non-discretionary NT Dollar and foreign currency trust funds in overseas securities (such as foreign mutual funds and linked bonds) and the investment of non-discretionary NT Dollar trust funds in domestic mutual funds and employee retirement trust funds. In addition, the Bank introduced the online purchasing of trust funds and inaugurated the investment of non-discretionary trust funds in overseas securities overseas linked bonds, as well as the use of the foreign-currency trust method to handle the investment of non-discretionary trust funds in overseas securities, and the investment of non-discretionary trust funds in domestic mutual funds. In the field of securities, the Bank continued carrying out the placing of securities orders by mobile brokers using cell phones. The result was a significant growth in the number of securities accounts, with the volume of orders placed via cell phones accounting for approximately 16% of all transactions.

#### (5) Consumer Banking

The Bank encouraged customers to use its credit cards by raising the amount of cash bonuses for credit-card use and lowering the interest rate on credit-card revolving credit to 13.14%, and by introducing incentive measures to expand the issuance of Bank of Taiwan credit cards and to encourage business units to promote the credit-card business. In the future, the Bank will plan for the consolidation of the bank card, debit card, and credit card into one card.

At the end of 2003 the accumulated number of bank cards (including IC cards) issued by the BOT stood at 2,740,000, for a growth of 9.51% over a year earlier. The accumulated number of credit cards issued was 264,000, an increase of 30.74% over the end of 2002.

#### (6) Bills Finance

The short-term bills certification and underwriting business undertaken by the BOT in 2003 amounted to a total of NT\$45,966 million. This was a decline of NT\$9,340 million from the previous year, mainly because of the influence of the global economic slump, the slackening of Taiwan's economic growth, and the outward migration of industries, so that the demand for capital slowed down. Other reasons included the continued slide of interest rates in the money market; the gap between loans and the issuance of bills to raise funds was not large, leading to a contraction of about 16.89% in the Bank's certification and underwriting business. In the coming year, the Bank can hope to see an increase in commission income from the bills certification and underwriting business due to an expansion of the demand for capital as the economy recovers.



### (7) Electronic Banking

To move with the trends and ride the wave of development in electronic commerce and the Internet, the BOT moved into the area of business-to-customer (B2C) e-commerce funds-flow services to integrate the existing Internet banking, telephone banking, mobile banking, and mobile stock brokerage businesses and to continue expanding the range of services, reinforcing the transaction security mechanism, and improving the efficiency of system execution. In the area of business-to-business (B2B) funds-flow services, the Bank continued promoting financial EDI operations, vigorously pursuing cooperation with major industries and stores and promoting the payment of fees through electronic funds transfer, thereby providing convenient automated collection and payment services.

In line with the introduction of new types of e-banking businesses, the Bank mounted timely marketing activities aimed at heightening the awareness of its e-banking products. Planning was carried out for the installation of B2C foreign-exchange business, corporate online foreign-exchange business and domestic online letter of credit business, self-marketing and customer information value-added services, customer relations management (CRM), an student loan portal site, and the use of second-generation IC cards for various online applications.

### (8) Businesses Pertaining to the Issuance of New Taiwan Dollars Delegated by the Central Bank of China

The BOT handles operations related to the issuance of the New Taiwan Dollar, including distribution, shipment, adjustment of supply, and sorting of banknotes for redistribution, in accordance with the Regulations Governing the Delegation by the Central Bank of China of Business Pertaining to the Issue of New Taiwan Dollars to the Bank of Taiwan. The average amount of currency in circulation in 2003 was NT\$772,432 million, an increase of 6.55% over the previous year. The peak amount in circulation during the year was NT\$1,031,544 million (on Jan. 30, the eve of the Chinese New Year), up 1.51% over the peak of the year before. The amount in circulation at the end of the year was NT\$785,164 million, which was 12.41% more than at the end of 2002.

## 3. Amounts and Ratios of Deposits (Trust Funds) , Loans, Investments, Foreign Exchange, Bills Transactions, and Commercial Paper Underwriting for the Past Two Years

### (1) Deposits

Unit: NT\$ million

Date Items	Dec. 31, 2003		Dec. 31, 2002	
	Amount	%	Amount	%
Public Treasury Deposits	299,372	14.93	291,024	15.07
Postal Savings Redeposits	85,471	4.26	87,048	4.51
Checking account	22,651	1.13	19,481	1.01
Demand deposits	84,132	4.20	72,759	3.77
Time deposits	183,352	9.15	204,251	10.57
Savings account	1,329,229	66.30	1,255,247	65.00
Remittances	527	0.03	1,466	0.07
<b>Total</b>	<b>2,004,734</b>	<b>100.00</b>	<b>1,931,276</b>	<b>100.00</b>

### (2) Trust Funds in the Trust Department

Unit: NT\$ million

Date Items	Dec. 31, 2003	Dec. 31, 2002	Growth (%)
Non-discretionary Funds Invested in Overseas Securities	4,992	4,244	17.62
Non-discretionary Funds Invested in Domestic Securities Investment Trust Funds	1,865	-	-
Employee Retirement Trust Funds	9,585	8,858	8.21
<b>Total</b>	<b>16,442</b>	<b>13,102</b>	<b>25.49</b>

Note: The investment of non-discretionary trust funds in domestic securities investment trust funds was inaugurated on July 15, 2003.



**(3) Loans**

Unit: NT\$ million

Items \ Date	Dec. 31, 2003		Dec. 31, 2002	
	Amount	%	Amount	%
Discounted	5	0.00	16	0.00
Overdrafts	45,605	4.33	55,372	4.81
Secured overdrafts	1,510	0.14	1,892	0.17
Bills purchased, export/import bills negotiation	3,504	0.33	3,503	0.31
Short-term loans	189,281	17.98	124,073	10.78
Short-term secured loans	70,401	6.69	65,044	5.65
Receivables from securities refinance	301	0.03	108	0.01
Medium-term loans	153,277	14.56	197,034	17.12
Medium-term secured loans	81,150	7.71	85,166	7.40
Long-term loans	297,180	28.24	395,007	34.32
Long-term secured loans	210,336	19.99	223,659	19.43
<b>Total</b>	<b>1,052,550</b>	<b>100.00</b>	<b>1,150,874</b>	<b>100.00</b>

Note: The above are gross amounts before provision for bad loans.

**(4) Investments**

Unit: NT\$ million

Items \ Date	Dec. 31, 2003	Dec. 31, 2002	Growth (%)
Long-term equity investment	39,861	43,545	-8.46
Short-term investment	240,028	259,978	-7.67
<b>Total</b>	<b>279,889</b>	<b>303,523</b>	<b>-7.79</b>

**(5) Foreign Exchange**

Unit: US\$ million

Items \ Year	2003	2002	Growth (%)
Foreign exchange purchases	21,127	18,432	14.62
Foreign exchange sales	24,944	20,303	21.78
<b>Total</b>	<b>46,071</b>	<b>38,735</b>	<b>18.94</b>

**(6) Bills Transactions and Commercial Paper Underwriting**

Unit: NT\$ million

Items \ Year	2003	2002	Growth (%)
Short-term bills purchasing	1,776,290	1,907,522	-6.88
Commercial paper underwriting	45,966	55,307	-16.89

### III. Human Resources

The BOT has always placed great emphasis on the planning and management of human resources. In addition to the strengthening of education and training, the infusion of marketing service concepts, the upgrading of employee skills, and the planned training of bank officers, the Bank has worked to upgrade the efficiency of manpower utilization by continuing to promote lifetime learning, carrying out a personnel promotion evaluation system, and reinforcing the incentive system of performance bonuses in order to effect an overall upgrading of service quality aimed at gaining customer

approbation and trust. At the end of 2003 the BOT staff totalled 6,843 persons (not including contract salespersons and overseas hires) with an average age of 42.92 years.

**Employee Statistics for the Past Two Years**

Date		Dec. 31, 2003	Dec. 31, 2002
Items			
No. of Employees		6,843	6,921
Average Age		42.92	42.17
Average Seniority		16.86	16.01
Edu- cation	Graduate School	215	203
	University and College	5,199	5,226
	Senior High and Under	1,429	1,492

### IV. Labor-Management Relations

The BOT suffered no losses resulting from labor-management disputes during the past two years.

### V. Fixed Assets and Other Real Estate

#### 1. Self-owned Land and Buildings

The BOT's real estate consists of properties existing at the time of the Bank's establishment in 1946, American military housing built pursuant to instructions from the Executive Yuan in 1954, and banking premises procured over the years. All of these properties are wholly owned, unencumbered, and without any restriction on rights. As of Dec. 31, 2003 this real estate consisted of 5,069 plots of land with a total area of 286.98 hectares, a publicly assessed value of approximately NT\$86.632 billion, and a book value of approximately NT\$89.0 billion (a reassessment of the land value was carried out on June 30, 2003), as well as buildings with an area of approximately 167,500 pings and a book value of NT\$10.655 billion.

#### 2. Disposition and Acquisition of Fixed Assets with a Value of NT\$50 Million or More During the Past Two Years

Land and Buildings Transferred to State Ownership

Name of Asset	Date of Disposition	Price of Disposition (NT\$1,000)	Profit from Disposition (NT\$1,000)
47 plots of land in Shihlin District, Taipei City	Oct. 2002	0	-7,066,379
16 plots of land in Jhongjheng District, Taipei City	Oct. 2003	0	-1,580,464
Seven building units in Taipei City	Oct. 2003	0	-6,642
<b>Total</b>		<b>0</b>	<b>-8,653,485</b>

Acquisition of Real Estate

Name of Asset	Date of Acquisition	Area (Sq. m.)	Cost of Acquisition (NT\$1,000)	Book Value (NT\$1,000)
Plot 491 in Subsection 1, Huagang Section, Shihlin District, Taipei City	May 2002	841.24	53,400	53,400
House at No. 15 Heping Rd., Shihlin District, Taipei City	May 2002	413.78	3,610	3,779
<b>Total</b>			<b>57,010</b>	<b>57,179</b>

## VI. Reinvested Enterprises

### Long-term Equity Investment

Dec. 31, 2003

Unit: NT\$1,000

Reinvested Enterprise		Cost of Investment	Book Value	BOT Share Ownership		Assessed Value of Investment (see notes)	Current Year Return on Investment
Name	Main Business			No. Shares	% Ownership		
TAIWAN SUGAR CORP.	Sugar manufacturing	50,673	50,673	23,137,489	0.30	1,121,705	4,627
TAIWAN POWER COMPANY	Power generation and distribution	6,805,780	6,805,780	865,191,972	2.62	13,739,249	302,817
TAIWAN MACHINERY MANUFACTURING CORP.	Machinery Manufacturing	0	0	10,253,459	1.60	0	
TAIWAN STOCK EXCHANGE	Stock trading	120,132	120,132	23,993,000	5.01	1,115,435	29,991
CHINA PETROCHEMICAL DEVELOPMENT CORP.	Petrochemicals	15,609	15,609	2,405,000	0.16	12,338	-11,277
FIRST FINANCIAL HOLDINGS CO., LTD.	Finance	3,311,688	3,311,688	449,640,825	8.10	10,346,235	323,633
HUA NAN FINANCIAL HOLDINGS CO., LTD.	Finance	8,105,279	11,324,032	1,388,452,271	29.36	11,324,032	-4,968,032
CHANG HWA COMMERCIAL BANK LTD.	Finance	43,217	43,217	5,705,433	0.12	90,203	19,183
TAIWAN BUSINESS BANK	Finance	6,323,648	8,394,743	888,002,495	28.32	8,394,743	1,150,123
BANK OF OVERSEAS CHINESE	Finance	15,033	15,033	1,503,300	0.13	7,426	-477
CATHAY FINANCIAL HOLDING CO., LTD.	Finance	376,654	376,654	136,822,492	1.65	7,087,405	207,272
TAIWAN NAVIGATION CO., LTD.	Shipping	172,020	172,020	23,982,263	7.54	513,700	100,082
MEGA FINANCIAL HOLDING COMPANY	Finance	471,268	471,268	234,649,487	2.06	4,807,968	90,839
TAIWAN TEA CORP.	Tea production	0	0	0	0.00	0	9,152
TAIWAN TELEVISION ENTERPRISE, LTD.	TV broadcasting	155,150	155,150	40,316,161	14.37	565,233	
TAIWAN LIFE INSURANCE CO., LTD.	Life insurance	812,325	1,492,714	99,814,594	26.06	1,492,714	425,205
TAIWAN FIRE & MARINE INSURANCE CO., LTD.	Property insurance	256,514	546,958	50,428,303	17.97	546,958	152,374
TANG-ENG IRON WORKS CO., LTD.	Steel manufacturing	3,080,170	0	308,017,022	44.00	0	
TAIWAN DEVELOPMENT & TRUST CORP.	Land development	368,020	368,020	36,802,000	12.27	75,812	-26,509
CHINA DEVELOPMENT FINANCIAL HOLDING CORP.	Finance	381,158	381,158	185,730,947	1.56	2,923,405	15,161
KAOHSIUNG AMMONIUM SULFATE CO., LTD.	Fertilizer manufacturing	1,377,870	1,884,423	303,131,312	91.86	1,884,423	-21,184
TAIWAN CHUNG HSING PAPER CORP.	Paper manufacturing	0	0	25,035,822	9.54	0	
TAIWAN SHIN-SHENG PRESS ENTERPRISE COMPANY	News publishing	0	0	355,005	0.23	0	
CHINA TRADE & DEVELOPMENT CORP.	Trade	12,501	12,501	1,250,110	1.91	20,852	
CHINA DAILY NEWS	News publishing	10,320	10,320	3,477,600	10.32	69,587	
CHINA SHIP BUILDING CORP.	Shipbuilding	26,972	26,972	2,697,208	0.24	6,338	-9,145
CENTRAL MOTION PICTURE CORP.	Movie production	30,000	30,000	8,913,458	15.16	489,616	7,133
FUJHWA FINANCIAL HOLDING CO., LTD."	Finance	820,342	820,342	193,510,800	6.69	2,068,630	98,565
TAIWAN MOTOR TRANSPORT COMPANY LTD.	Bus transportation	0	0	10,000	0.001	0	
INTERNATIONAL INVESTMENT TRUST CO., LTD.	Investment	20,000	20,000	4,762,959	7.74	74,255	12,384
TAI YI REAL ESTATE MANAGEMENT CO., LTD.	Construction	15,000	0	3,450,000	30.00	0	
UNITED TAIWAN BANK S.A.	Finance	125,921	125,921	146,250	10.00	141,943	
TAIWAN FOREX INC.	Finance	7,000	7,000	700,000	3.53	9,653	1,602
TAIWAN FUTURES EXCHANGE CORP.	Future trading	26,000	26,000	2,600,000	1.30	32,370	
BANKPRO E-SERVICE TECHNOLOGY CO., LTD.	Financial services	4,500	4,500	450,000	3.33	2,997	
TAIWAN ASSET MANAGEMENT CORP.	Asset management	700,000	700,000	70,000,000	3.97	721,700	
TAIWAN FINANCIAL ASSET SERVICE CORP.	Asset management	50,000	50,000	5,000,000	2.94	50,800	
FINANCIAL INFORMATION SERVICE CO., LTD.	Financial services	65,092	65,092	6,115,000	1.53	85,855	9,111
TAIWAN COOPERATIVE BANK	Finance	23,417	23,417	1,999,040	0.09	53,374	220
FINANCIAL eSOLUTION CO., LTD.	Financial services	10,000	10,000	1,092,150	3.64	13,477	
BANK OF TAIWAN (EUROPE) N.V.	Finance	0	0	0	0.00	0	1,417
Total		34,189,273	37,861,337			69,890,431	-2,075,733

Notes: 1. Value of shares of companies listed on the TSE or OTC markets calculated at average closing price in December 2003.

2. Value of unlisted companies is calculated at net value at end of June 2003.

3. For shareholdings that reach 20%, assessment is based on the equity method.

## VII. Risk Management

The service quality and efficiency of Taiwan's financial institutions have risen constantly along with the increased pace of financial liberalization and internationalization, but these trends have also confronted financial institutions with competitive pressure and operating risk. This is especially true with the recent impact of such factors as an excessive number of banks and their excessively small size, which have brought about a repeated decline in the ratio of rate of return on net assets. This has made the overall operating environment for domestic financial institutions more difficult than ever.

The BOT's New Basel Accord task force holds regular meetings to reinforce the Bank's risk management mechanism by studying the risk management criteria of the New Basel Accord and map out a blueprint for future risk control operations. In 2003 the Bank began working on the installation of a credit investigation and loan computer system as well as a bills computer system; once these two systems are completed, the computerization of the Bank's major business operations and related risk management will enter a new era of advancement.

In addition to calling irregular meetings of the Assets and Liabilities Management Committee to discuss the Bank's capital situation, liquidity gap and interest rate risk, and domestic and international economic conditions with the aim of strengthening its risk management, the BOT has also formulated "Quota Management Criteria for Country Risk," "Rules for Credit Risk Management in Loans to Enterprise Groups," and "Liquidity and Interest Rate Risk Management Policy" so as to strengthen country risk, credit risk control and liquidity, and interest-rate-sensitive risk management, and further to heighten the efficiency of funds utilization and make the Bank's operations more healthy.

### (1) Concentration of Credit Risk

Unit: NT\$1,000; %

	Dec. 31, 2003		Dec. 31, 2002	
Amount of Loans to Materially Related Parties	16,791,318		18,745,379	
Ratio of Loans to Materially Related Parties	1.49		1.54	
Ratio of Loans Secured by Stocks	0.04		0.05	
Concentration of exposure by specific sector (top three sectors in exposure ratio)	sector	%	sector	%
	1. Government Agencies	42.51	1. Government Agencies	48.98
	2. Private Persons	27.19	2. Private Persons	23.88
	3. Manufacturing	16.18	3. Manufacturing	13.86



**(2) Asset Quality**

Unit: NT\$1,000; %

	Dec. 31, 2003	Dec. 31, 2002
Non-performing Loans (including Loans for Collection)	23,414,438	34,412,960
Loans for Collection	26,919,391	34,409,483
NPL Ratio	2.17	2.90
Loans Subject to Observation	10,589,714	8,427,371
Loans Subject to Observation in Proportion to Total Amount of Outstanding Loans	0.98	0.71
Reserve against losses on loans and loans for collection	10,395,067	13,981,406
Write-off of bad loans	7,276,701	24,241,127

**(3) Market Risk Sensitivity**

Unit: %

	Dec. 31, 2003	Dec. 31, 2002
Ratio of Interest Rate-Sensitive Assets to Liabilities	105.02	62.05
Ratio of Interest Rate-Sensitive Gap to Net Worth	35.02	-286.22

Notes: 1. Interest rate-sensitive assets and liabilities refer to profit-producing assets and interest-paying liabilities the profit or cost of which is subject to the influence of changes in interest rates.

2. Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets divided by interest rate-sensitive liabilities (referring to assets and liabilities sensitive to New Taiwan dollar interest rates during the year)

3. Interest rate-sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities

**(4) Assets and Liabilities Maturity Analysis**

Dec. 31, 2003

Unit: NT\$1,000

	Total	Amounts by Time Remaining Before Maturity				
		0-30 days	31-90 days	91-180 days	181 days-one year	Over one year
Assets	2,184,534,000	398,966,000	265,413,000	331,850,000	227,019,000	961,286,000
Liabilities	2,221,399,000	175,204,000	222,324,000	248,717,000	509,424,000	1,065,730,000
Gap	-36,865,000	223,762,000	43,089,000	83,133,000	-282,405,000	-104,444,000
Accumulated Gap		223,762,000	266,851,000	349,984,000	67,579,000	-36,865,000

**(5) Derivatives Trading**

The nominal amount of dealing in foreign currency derivative financial products in 2003 amounted to US\$3,466 million, and such dealing in NT dollar derivatives totaled NT\$194,003 million. For further information, please refer to Note 23 to Financial Statements.

## VIII. Major Contracts

The BOT's ongoing contracts, technical cooperation contracts that have come to term within the past year, engineering contracts, and other contracts that influence the interests of investors are shown in the following chart:

Nature of Contract	Contracting Party	Date of Contract Validity	Main Contents	Limiting Conditions
Deposit insurance	Central Deposit Insurance Corp.	Since Feb. 1999	Deposit insurance contract	—
Commissioning by Small and Medium Enterprise Credit Guarantee Fund	Small and Medium Business Credit Guarantee Fund	Since July 1974	Provision of credit guarantees for loans to SMEs that meet the conditions for credit guarantees	—
Commissioning by Agricultural Credit Guarantee Fund	Agricultural Credit Guarantee Fund	Since Nov. 2002	Provision of credit guarantees for loans to borrowers who meet conditions for agricultural credit guarantees	—
Loan guarantees from the Overseas Chinese Credit Guarantee Fund	Overseas Chinese Credit Guarantee Fund	Since June 1991	Provision of loan guarantees for overseas Chinese and overseas Chinese enterprises	—
Takeover of the credit departments of the Taiwan Provincial Farmers' Association, Pingtung County Farmers' Association, and Sinyuan Township Farmers' Association	Central Deposit Insurance Corp.	Since Sep. 15, 2001	1. The targets of the BOT's takeover of the three credit departments are their business and their assets and liabilities 2. The value of the three takeover targets was assessed by a certified accountants office commissioned by the BOT adjusted to the book value on the base date. On the base date of the takeover the liabilities of the acquired credit departments exceeded their assets; the difference is to be paid to the BOT by the deposit insurance company in accordance with the compensation contract.	—
Compensation contract	Central Deposit Insurance Corp.	Since Sep. 15, 2001	The deposit insurance company was entrusted by the Executive Yuan's Financial Reconstruction Fund with the payment of compensation for the excess of liabilities of the credit departments of farmers' associations over their assets; for calculation of the difference, the insurance deposit company and the BOT have agreed to use the results of assessment by a certified accountants office adjusted to the book value on the base day.	—

Note: Business relations between the BOT and its customers are handled in accordance with the Banking Law, regulations of the competent authority, and the BOT's internal charter, and there are no technical cooperation contracts such as those required by general manufacturing and trading businesses.

## IX. Court Cases Pending

During the past two years, the BOT has been involved in no important court cases or administrative disputes that could potentially have a major influence on the interests of depositors or shareholders.



# **Operating and Fund Utilization Plans**

## **I. Operating Plans for 2004**

Business plans for this year have been set in accordance with plans approved by the Ministry of Finance, with reference to business performance in previous years, current operating conditions, and future development trends. The budgeted volume for major areas of business items are given below:

1. Deposits: The average amount of total deposits in the Bank is projected at NT\$1,926,000 million, an increase of NT\$65,373 million over the budgeted amount for the previous year.
2. Loans: The average amount of loans outstanding during this year is projected at NT\$1,300,000 million, a decrease of NT\$110,050 million over the previous year.
3. Guarantees: The total amount of guarantees undertaken during this year is projected to be NT\$50,000 million, a decrease of NT\$1,688 million over the previous year.
4. Foreign exchange: The volume of foreign exchange transactions undertaken during this year is projected at US\$40,560 million, for an increase of US\$1,560 million from the budget for the previous year.
5. Securities brokerage: The amount of securities brokerage business undertaken during the year is projected at NT\$51,000 million, for an increase of NT\$1,000 million over the previous year.

## **II. Real Estate Disposition and Procurement, and Long-term Investment Plans for 2004**

### **1. Real Estate Disposition and Procurement Plans**

To improve the rate of utilization of the Bank's real estate and expedite the disposition of its real property, 55 plots of land in 23 locations in Taipei city with a book value of NT\$4.645 billion, and 14 structures with a book value of NT\$5 million, were screened out for sale. The Ministry of Finance approved the sale first with budget entry to come later, but the case involved the review and analysis of the appropriateness of the scale of fixed assets of a state-owned financial institution; the approval process is still going on, and the sale was not executed during 2003. The budgeted sale of property in 2004 is mainly in Taipei and Kaohsiung cities, with secondary emphasis on property in other cities and counties; plans include the sale of 204 plots of land with a book value of NT\$10.279 billion, as well as 128 structures with a book value of NT\$66 million. These two plans require reporting and approval in regard to optimum scale for state-run financial institutions before the sale can be carried out in accordance with the stipulated procedures.

### **2. Long-term Investment Plans**

The Bank will move to lower its ratio of equity investment to paid-in capital and improve its overall investment performance by planning for the liquidation of its investments in other enterprises where performance is poor, where the goal of investment has been achieved, or where the invested enterprises are not related to the Bank's business.

## **III. Research and Development**

### **1. Research and Development Spending**

R&D spending during 2002 amounted to NT\$12 million and spending for 2003 totalled NT\$9 million.

### **2. Results of Research and Development**

To work for business innovation and stimulate the full potential of employees, the BOT has set up a committee for the development of new types of business and has formulated incentive measures for the development of new types of business. A total of eight innovations were proposed bank-wide in 2003, and proposals that were adopted included layered-interest-rate money-management home loans, simple factoring, and living contracts.

Other R&D results achieved in 2003 include the following:

- (1) Printing of 12 industrial status reports with contents including domestic industrial performance surveys and industrial developments.
- (2) Printing of "Recent Conditions Regarding Country Risk Ratings of Different Countries and Movements of Major Economic and Financial Indexes" for use as a reference of national



risk by the Bank's foreign exchange units and OBU.

- (3) Printing of 12 copies each of "Domestic Economic and Financial Conditions," "International Economic and Financial Conditions," and "Changes in Major Business and Structural Ratios of Domestic Financial Institutions" for use in assessing interest rate and foreign exchange rate trends and analyzing changes in share of major markets and structural ratios of financial institutions, to serve as a reference in decision-making in regard to the formulation of loan and marketing strategies as well as the development of new financial products.
- (4) Printing of four issues of the Quarterly Review of the Bank of Taiwan and 12 issues of the Taiwan Economic and Financial Monthly for use as a reference by the banking industry as well as domestic and foreign scholars.
- (5) Submission of 12 special research reports. These included six industry reports: "Current Status and Prospects of Taiwan's Biotechnology Industry," "The Third-generation Mobile Communications Industry," "Current Status and Prospects of Taiwan's Semiconductor Industry," "Current Status and Future Development of the TFT-LCD Industry," "Current Status and Prospects of Taiwan's Tourism Industry," and "Prospects of the Digital Content Industry," as well as six economic and financial reports: "Current Trends in Domestic and International Interest Rates," "Recent Economic and Financial Conditions in South Korea," "Future Trends of the Renminbi," "Economic and Financial Conditions in the Philippines," "Present Economic and Financial Conditions in Taiwan," and "Analysis of the Global Rankings of Financial Institutions."
- (6) BOT employees carried out 24 research projects on their own initiative during the year, including "A Study of the application of Value at Risk (VaR) in Bank Risk Management Under the New Basel Accord," "A Study of the Development of Private Banking in Taiwan," and "The BOT Strategy in Promoting Bank Insurance," all of which focused on the BOT's business renovation and development or on topics related to the financial industry.
- (7) BOT employees who went on study trips overseas submitted 23 reports, including "The Personal Trust Business," "Analysis and Management of Market Risk," and "A Study of Electronic Commerce."

### 3. Future R&D Plans

The BOT has always emphasized and encouraged R&D over the years, and in the future it will continue to carry out research in major business areas, implement the employee suggestion program, and carry on with the self-research and overseas study programs. In 2004 the Bank plans to carry out 17 self-initiated study projects, including "Improvement of Educational Loan Application Operations - Online Application," "Opportunities for the Rebirth of Traditional Industries," and "How to Improve the Quality of Banking Operations in Response to the New Basel Accord." Two of the projects have been listed by the Ministry of Finance for monitoring: "Improvement of County Treasury Agency Deposits" and "A Study of Corporate Online Disbursement Tools and Electronic Checking."

## IV. Fund Utilization Plans

### 1. The contents, sources of funding, budget utilization, and potential results of the Bank's plans for business expansion, acquisition of other financial institutions or investment in other companies, and expansion or construction of fixed assets during this fiscal year

Construction, improvement, and expansion plans for fixed assets for 2004 include NT\$837 million for housing and buildings, NT\$640 million for machinery and equipment, NT\$63 million for transportation and shipping equipment, NT\$37 million for miscellaneous expenditures, and NT\$35 million for leasehold improvements. The total amount of capital expenditures for the plan is NT\$1,612 million, which will be financed by operating capital.

### 2. Previous capital increase via cash injection and issuance of financial debenture projects, uncompleted previous capital increases via cash injection or issuance of financial debentures, and unrealized results of capital utilization plans for the most recent two years

(None)



# Financial Status

## I. Balance Sheets and Income Statements for Past Five Years

### Five-Year Balance Sheets

Unit: NT\$1,000

Items	FY2003	FY2002	FY2001	Latter-half 1999 &FY2000	FY1999
<b>Assets</b>					
Liquid assets	1,149,714,573	987,958,177	867,165,387	705,801,122	551,257,901
Bills purchased & discounts and loans	1,048,030,255	1,139,934,122	1,267,162,160	1,343,582,727	1,314,402,694
Long-term fund investments and receivables	73,086,951	65,945,226	86,163,846	81,546,740	79,639,142
Fixed assets	94,736,985	89,268,863	52,569,218	52,083,948	50,994,201
Intangibles and other assets	29,025,937	37,699,778	44,498,330	36,693,789	28,698,240
<b>Total assets</b>	<b>2,394,594,701</b>	<b>2,320,806,166</b>	<b>2,317,558,941</b>	<b>2,219,708,326</b>	<b>2,024,992,178</b>
<b>Liabilities</b>					
Liquid liabilities	175,443,740	189,736,304	188,858,215	197,272,128	201,488,345
Deposits accepted, remittances and bank bonds payable	2,004,733,672	1,931,276,252	1,916,180,389	1,817,235,953	1,631,828,769
Financing from Central Bank and other banks	10,255,132	10,035,819	9,765,523	10,330,894	6,518,533
Long-term debt	43,691,182	6,690,946	7,110,715	8,093,806	7,368,215
Other liabilities	2,128,264	1,964,797	1,927,377	1,819,933	2,024,952
<b>Total liabilities</b>	<b>2,236,251,990</b>	<b>2,139,704,118</b>	<b>2,123,842,219</b>	<b>2,034,752,714</b>	<b>1,849,228,814</b>
<b>Stockholders' equity</b>					
Capital	48,000,000	48,000,000	32,000,000	32,000,000	32,000,000
Capital surplus and retained earnings	110,188,157	132,677,734	161,618,473	152,779,103	143,584,860
Equity adjustment	154,554	424,314	98,249	176,509	178,504
<b>Total stockholders' equity</b>	<b>158,342,711</b>	<b>181,102,048</b>	<b>193,716,722</b>	<b>184,955,612</b>	<b>175,763,364</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>2,394,594,701</b>	<b>2,320,806,166</b>	<b>2,317,558,941</b>	<b>2,219,708,326</b>	<b>2,024,992,178</b>

Notes: 1. For the periods FY1999 through FY2000, all figures are approved by the Ministry of Audit; figures for FY2001 and FY2002 are pre-profit distribution figures readjusted by the CPA in accordance with figures approved by the Ministry of Audit; figures for FY2003 are CPA approved.

2. From FY 1999, a fiscal year system for accounting periods is used. The accounting year begins on July 1st ending the next June 30th.

3. In line with regulations mandated by the revised Budget Law, requiring a change from fiscal to calendar year accounting periods, the combined latter half of 1999 and FY2000 period above has an accounting period beginning July 1, 1999 and ending December 31, 2000.

### Five-Year Income Statements

Unit: NT\$1,000

Items	FY2003	FY2002	FY2001	Latter-half 1999 &FY2000	FY1999
<b>Revenues</b>					
Operating revenues	64,719,528	89,731,261	123,322,795	192,414,753	123,547,626
Non-operating income	5,443,254	691,020	748,427	522,299	362,302
<b>Total revenues</b>	<b>70,162,782</b>	<b>90,422,281</b>	<b>124,071,222</b>	<b>192,937,052</b>	<b>123,909,928</b>
<b>Expenses</b>					
Operating costs	47,878,470	71,267,194	96,782,631	151,580,228	93,480,464
Operating expenses	13,988,568	14,625,663	15,025,663	22,224,563	17,144,381
Non-operating expenses	1,192,710	581,300	926,885	2,243,597	486,452
Income tax expense	1,659,479	3,467,166	2,483,452	2,381,703	2,646,069
<b>Total expenses</b>	<b>64,719,227</b>	<b>89,941,323</b>	<b>115,218,631</b>	<b>178,430,091</b>	<b>113,757,366</b>
<b>Net income (Net loss-)</b>	<b>5,443,555</b>	<b>480,958</b>	<b>8,852,591</b>	<b>14,506,961</b>	<b>10,152,562</b>

Note : Same as the above table.

## II. Financial Ratios for Past Five Years

Items		Five-year Financial Analysis				
		FY2003	FY2002	FY2001	Latter-half 1999 & FY2000	FY1999
Financial Structure	Ratio of Liabilities to Assets (%)	93.39	92.20	91.64	91.67	91.32
	Ratio of Deposits to Net Worth (%)	1,265.74	1,065.59	988.95	978.62	924.49
	Ratio of Fixed Assets to Net Worth (%)	59.83	49.29	27.14	28.16	29.01
Solvency	Liquidity Ratio (%)	655.32	520.70	459.16	357.78	273.59
	Liquidity Reserve Ratio (%)	59.23	48.22	36.70	28.56	18.21
Operating Ability	Ratio of Deposits to Loans (%)	58.30	62.73	72.06	76.97	84.84
	Non-performing Loan Ratio (%)	2.17	2.90	3.34	2.74	2.11
	Ratio of Interest Costs to Annual Average Amount of Deposits (%)	1.95	2.72	4.14	4.79	5.32
	Ratio of Interest Income to Annual Average Loans Outstanding (%)	3.48	5.16	6.57	7.36	7.71
	Total Assets Turnover (times)	0.03	0.04	0.05	0.06	0.06
	Average Operating Revenue per Employee (NT\$1,000)	9,201	12,580	17,475	17,848	17,916
	Average Profit per Employee (NT\$1,000)	774	67	1,254	1,346	1,472
Profitability	Return on Assets (%)	0.23	0.02	0.39	0.46	0.53
	Return on Shareholders' Equity (%)	3.21	0.26	4.61	5.36	5.86
	Ratio to Paid-in Capital (%)	Operating Income (%)	5.94	8.00	35.98	38.77
		Income before Income Tax (%)	14.80	8.23	35.43	35.18
	Net Income Ratio (%)	8.41	0.54	7.18	7.54	8.22
	Earnings per Share (NT\$1)	–	–	–	–	–
Cash Flow	Cash Flow Ratio (%)	6.74	3.93	–0.90	16.90	–7.28
	Cash Flow Adequacy Ratio (%)	133.59	75.45	75.83	73.46	24.77
	Cash Reinvestment Ratio (%)	1.01	0.09	–0.83	4.39	–3.88

Items	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
BIS Ratio of Capital to Risk-based Assets	14.62	15.56	16.33	16.09	18.92
Ratio of Loans to Parties with Material Relationship with the Bank to Total Loans (%)	1.49	1.45	1.45	1.53	1.50

Notes: Formulae used in calculations:

(1) Financial structure

- Ratio of liabilities to assets = Liabilities/Assets
- Ratio of deposits to net worth = Deposits/Net Worth
- Ratio of fixed assets to net worth = Fixed Assets/Net Worth

(2) Solvency

- Liquidity ratio = Liquid Assets/Liquid Liabilities
- Liquidity reserves ratio = Central Bank -stipulated liquid assets/Reserves appropriated for various types of deposits



(3) Operating ability

- a. Deposit to loan ratio = Annual average loans outstanding/Annual average deposits
- b. Non-performing loan ratio = (Loans for collection + Non-performing loans)/Total loans outstanding
- c. Ratio of interest costs to annual average amount of deposits = Interest expenditures related to deposits/Annual average amount of deposits
- d. Ratio of interest income to annual average loans outstanding = Interest income related to loans/Annual average amount of loans outstanding
- e. Ratio of turnover of total assets = Operating Income/Average Total Assets
- f. Average operating revenues per employee = Operating Revenues/Annual average total number of employees
- g. Average profit per employee = Net Income/Total number of employees at year-end

(4) Profitability

- a. Return on assets = Net Income/Average Total Assets
- b. Return on shareholders' equity = Net Income/Average net shareholders' equity
- c. Ratio of operating income to paid-in capital = Operating Income/Paid-in capital
- d. Ratio of before-tax net income to paid-in capital = Income before income tax/Paid-in capital
- e. Net income ratio = Net Income/Total Operating Revenues
- f. Earnings per share = Income before income tax/Weighted average number of shares issued

(5) Cash flow

- a. Cash flow ratio = Net cash flow for business activities/Liquid Liabilities
- b. Cash flow adequacy ratio = Net cash flow for business activities during most recent fiscal year/ Most recent fiscal year (Capital spending + Cash dividend)
- c. Cash reinvestment ratio = (Net cash flow for business activities - Cash dividend)/ (Gross value of fixed assets + Long-term investments + Other assets + Operating capital )

(6) Capital adequacy ratio (BIS)

Ratio of capital to risk-based assets = Net capital/Total risk-based assets

### III. Net Worth, Earnings, Dividends, and Market Value Per Share for Most Recent Two Years

(None)



#### IV. Supervisors' Report on Financial Statements for Most Recent Years

### Supervisors' Report

We hereby certify that the Bank of Taiwan's first Panel of Supervisors have examined, at their 5th meeting on Apr. 27, 2004, the Business Reports and List of Important Properties for fiscal year 2003 (Jan. 1, 2003 - Dec. 31, 2003) as submitted by the Bank's Board of Directors; and the Balance Sheets, Statements of Income, Statements of Changes in Shareholders' Equity, and Statements of Cash Flows of the Bank of Taiwan for fiscal year 2003 as submitted by the Bank's Board of Directors and audited and certified by Yen-ling Fang and David Ding, CPAs of KPMG, and have found no discrepancies.

Resident Supervisor: *Shih Bing-Huang*

Supervisors:

*Chen Jia-Ming*

*Hsieh Fu-Rong*

*Shaw Wen-Yue*

*Chen Jzer-Ming*

April 27, 2004

## V. Financial Statements for Past Year



KPMG Certified Public Accountants

### Independent Auditors' Report

The Board of Directors  
Bank of Taiwan

We have audited the accompanying balance sheets of Bank of Taiwan, Ltd. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. As stated in note 10 to the financial statements, certain long-term investments in the financial statements of Bank of Taiwan, Ltd. amounting to NT\$23,642,870 thousand and NT\$27,991,969 thousand as of December 31, 2003 and 2002, respectively, which were 0.99% and 1.21%, respectively, of total assets, and related investment losses of NT\$3,260,097 thousand and related investment gains of NT\$1,868,036 thousand in 2003 and 2002, respectively, which were 46.50% and 47.31%, respectively, of income before income tax, were accounted for by using the equity method and based on the investees' financial statements audited by other auditors and the Ministry of Audit.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements in the Banking Industry by Certified Public Accountants". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors and the Ministry of Audit, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Bank of Taiwan, Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with government regulations and accounting principles generally accepted in the Republic of China.

As stated in note 4, in accordance with Ministry of Audit Ruling Tai-Sun-No. 921842 issued on June 20, 2003, we restated the financial statements as of December 31, 2002.

The legal organization of Bank of Taiwan, transformed into a corporate entity starting from July 1, 2003, as approved by the Ministry of Finance on April 24, 2003.

March 15, 2004

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.



KPMG Certified Public Accountants, a CPA firm organized under the ROC CPA Law, is a member of KPMG International, a Swiss association.

## *Balance Sheets*

December 31, 2003 and 2002

	2003	2002
<b>Assets</b>		
Cash (note 5)	\$ 460,350,688	252,544,208
Due from banks (notes 5 and 24)	90,710,564	97,922,338
Due from Central Bank (notes 5 and 6)	267,256,947	288,672,270
Bills and securities purchased, net (notes 5, 7 and 24)	240,028,240	259,978,155
Receivables, net (notes 8, 9 and 22)	40,260,048	44,715,480
Prepayments	8,185,335	8,047,295
Temporary advances	42,922,751	36,078,431
Loans, discounts and bills purchased, net (notes 9, 23, and 24)	1,048,030,255	1,139,934,122
Long-term investments (note 10)	39,861,338	42,544,645
Long-term receivables (note 11)	33,225,613	23,400,581
Fixed assets, net (notes 12, 18, 21 and 26)		
Costs:		
Land (including revaluation increments)	84,557,641	78,950,619
Buildings	10,654,870	9,693,128
Machinery and equipment	3,797,293	3,617,529
Transportation equipment	1,040,243	891,087
Miscellaneous equipment	743,981	740,152
Leasehold improvement	305,804	287,180
Cost and revaluation increments	101,099,832	94,179,695
Less: Accumulated depreciation	(6,448,806)	(5,951,027)
Construction in progress and prepayment for equipment	85,959	1,040,195
Fixed assets, net	94,736,985	89,268,863
Intangible assets	384,478	212,558
Other assets, net (notes 13, 20 and 22)	28,641,459	37,487,220
<b>Total assets</b>	<b>\$ 2,394,594,701</b>	<b>2,320,806,166</b>



	(expressed in thousands of New Taiwan dollars)	
	2003	2002
<b>Liabilities and Stockholders' Equity</b>		
Due to Central Bank	\$ 7,525,353	15,750,047
Due to banks (notes 14 and 24)	108,729,133	117,599,098
Bonds sold under agreements to repurchase (note 7)	5,860,389	3,320,796
Payables (note 16)	51,879,065	50,657,643
Advance collections	1,449,800	2,408,720
Deposits and remittances (notes 17 and 24)	2,004,733,672	1,931,276,252
Borrowed from Central Bank and other banks (note 15)	10,255,132	10,035,819
Long-term liabilities (notes 12, 18 and 20)	43,691,182	6,690,946
Other liabilities (note 19)	2,128,264	1,964,797
<b>Total liabilities</b>	<b>2,236,251,990</b>	<b>2,139,704,118</b>
<b>Stockholders' equity (notes 10 and 21):</b>		
Capital stock	48,000,000	48,000,000
Capital surplus	97,314,648	60,432,181
Retained earnings:		
Legal reserve	-	39,176,307
Special reserve	-	25,158,334
Unappropriated retained earnings	12,873,509	7,910,912
	<b>12,873,509</b>	<b>72,245,553</b>
Cumulative translation adjustments	154,554	445,841
Unrealized loss on market value decline of long-term equity investments	-	(21,527)
<b>Total stockholders' equity</b>	<b>158,342,711</b>	<b>181,102,048</b>
Commitments and contingent liabilities (note 26)		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,394,594,701</b>	<b>2,320,806,166</b>

See accompanying notes to financial statements.

## Statements of Income

For the years ended December 31, 2003 and 2002

(expressed in thousands of New Taiwan dollars)

	2003	2002
<b>Operating revenues:</b>		
Interest income (note 24)	\$ 50,135,104	74,212,200
Service income	1,813,576	1,683,970
Gain on sale of trading securities, net	65,567	-
Recovery of market value on short-term investments	216,882	1,946,422
Brokerage and underwriting income	50,237	75,057
Gain on sale of bills and securities, net	11,227,229	8,009,912
Gain on long-term equity investments, net (notes 10 and 26)	-	2,899,413
Foreign exchange gain, net (note 23)	757,126	772,420
Others	453,807	131,867
Total operating revenues	<u>64,719,528</u>	<u>89,731,261</u>
<b>Operating costs:</b>		
Interest expenses (note 24)	40,586,380	54,845,163
Service charges	351,196	361,084
Loss on sale of trading securities, net	-	292
Brokerage and underwriting expenses	7,665	10,026
Loss on investments in real estate, net	-	115,383
Provisions for reserve	4,482,082	15,909,023
Cash transmitted fee	15,219	19,097
Loss on long-term equity investments, net (note 10)	1,984,065	-
Others	451,863	7,126
Total operating costs	<u>47,878,470</u>	<u>71,267,194</u>
<b>Gross operating profit</b>	<u>16,841,058</u>	<u>18,464,067</u>
<b>Operating expenses (note 24)</b>		
Business expenses	13,062,780	13,790,971
Administrative expenses	874,489	770,932
Others	51,299	63,760
Total operating expenses	<u>13,988,568</u>	<u>14,625,663</u>
<b>Operating income</b>	<u>2,852,490</u>	<u>3,838,404</u>
<b>Non-operating income (notes 3 and 24)</b>	5,443,254	691,020
<b>Non-operating expenses</b>	<u>1,192,710</u>	<u>581,300</u>
<b>Income before income tax</b>	7,103,034	3,948,124
<b>Income tax expense (note 22)</b>	1,659,479	3,467,166
<b>Net income</b>	<u><u>\$ 5,443,555</u></u>	<u><u>480,958</u></u>

See accompanying notes to financial statements.

## Statements of Cash Flows

For the years ended December 31, 2003 and 2002

(expressed in thousands of New Taiwan dollars)

	2003	2002
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,443,555	480,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	858,426	735,065
Amortization	64,440	21,848
Provision for allowance for doubtful accounts	4,309,108	15,894,029
Reversal of allowance for decline in market value of short-term investments	(216,882)	(1,859,104)
Provision for reserves	173,606	1,964
Loss on disposal of fixed assets and non-operating assets	672,587	72,089
Loss (income) from long-term equity investments under the equity method exceeding cash dividends received	3,469,634	(1,403,832)
Loss (gain) on disposal of long-term equity investments	(395,522)	33,334
Other noncash losses	4,577	2,090
Unpaid pension cost recognized	178,963	152,262
Decrease (increase) in receivables	(3,082,806)	1,742,606
Decrease in deferred tax assets, net	636,386	2,168,838
Increase in prepayments and temporary advances	(3,090,960)	(4,744,170)
Increase (decrease) in bonds sold under agreements to repurchase	2,539,592	(21,863)
Increase (decrease) in payables	1,221,421	(7,001,180)
Increase (decrease) in advance collections	(958,920)	1,189,020
<b>Net cash provided by operating activities</b>	<b>11,827,205</b>	<b>7,463,954</b>
<b>Cash flows from investing activities:</b>		
Increase in due from Central Bank	(8,815,495)	(87,981,879)
Decrease (increase) in bills and securities, net	26,501,428	(47,127,074)
Decrease in loans, discounts and bills purchased	98,319,267	129,078,282
Proceeds from sale of long-term equity investments	1,567,654	61,149
Acquisition of long-term equity investments	(2,000,000)	(82,373)
Proceeds from disposal of fixed assets and non-operating assets	70,875	30,141
Acquisition of non-operating assets	(382,298)	(3,099)
Acquisition of fixed assets	(828,651)	(1,073,028)
Increase in intangible assets	(1,301)	(179,936)
Increase in other assets	(13,157,235)	(12,916,592)
<b>Net cash provided by (used in) investing activities</b>	<b>101,274,244</b>	<b>(20,194,409)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in due to Central Bank	(8,224,694)	8,584,525
Decrease in due to banks	(8,869,965)	(1,872,414)
Increase in deposits and remittances	73,457,420	15,095,863
Increase in borrowed from Central Bank and other banks	219,313	270,296
Decrease in long-term liabilities	(283,514)	(578,752)
Increase in other liabilities	94,915	35,456
Payment of cash dividends and bonus for government	(217,497)	(6,573,079)
<b>Net cash provided by financing activities</b>	<b>56,175,978</b>	<b>14,961,895</b>
Effect of exchange rate changes	237,543	148,322
Net increase in cash and cash equivalents	169,514,970	2,379,762
Cash and cash equivalents, beginning of year	485,686,537	483,306,775
Cash and cash equivalents, end of year (notes 4 and 5)	<b>\$ 655,201,507</b>	<b>485,736,537</b>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 41,782,745	59,631,608
Income tax paid	\$ 1,548,744	1,768,835
<b>Investing and financing activities not affecting cash flow:</b>		
Unrealized loss on market value decline of long-term equity investments	\$ 21,527	50,337
Cumulative translation adjustments	\$ 237,543	275,728
Capitalization of retained earnings	\$ -	16,000,000

See accompanying notes to financial statements.

## *Statements of Changes in Stockholders' Equity*

For the years ended December 31, 2003 and 2002

	<u>Common stock</u>	<u>Capital surplus</u>
<b>Balance as of January 1, 2002</b>	\$32,000,000	77,894,524
Appropriation of retained earnings for 2001 (note 21)		
Legal reserve	—	—
Special reserve	—	—
Cash dividends for government	—	—
Stock dividends	16,000,000	—
Reversal of gain on sales of properties included in capital surplus	—	(10,614,220)
Net income for 2002	—	—
Adjustment of capital surplus from long-term equity investment	—	143,357
Cumulative translation adjustments	—	—
Unrealized gains on market value recovery of long-term equity investments	—	—
Land transferred to the National Property Bureau and write-off revaluation increments (note 21)	—	(6,991,480)
<b>Balance as of December 31, 2002</b>	<u>\$ 48,000,000</u>	<u>60,432,181</u>
Appropriation of retained earnings for 2002:		
Legal reserve	—	—
Special reserve	—	—
Cash dividends for government	—	—
Net loss for the six-months ended June 30, 2003	—	—
Reserve for revaluation increments on land	—	9,718,844
Reclassification the reserve for land value increment tax	—	(38,014,991)
Cumulative translation adjustments	—	—
<b>Balance as of June 30, 2003-before transformation</b>	<u><u>\$ 48,000,000</u></u>	<u><u>32,136,034</u></u>
<b>into corporate entity</b>		
Balance as of July 1, 2003 – capital surplus arising from retained earnings due to transformation into corporation entity (note 21)	\$ 48,000,000	97,314,648
Net income for the period July 1, 2003 to December 31, 2003	—	—
Cumulative translation adjustments	—	—
<b>Balance as of December 31, 2003</b>	<u><u>\$ 48,000,000</u></u>	<u><u>97,314,648</u></u>

(expressed in thousands of New Taiwan dollars)

Legal reserve	Retained earnings		Cumulative translation adjustments	Unrealized loss on market value decline of long-term equity investments	Total
	Special reserve	Unappropriated retained earnings			
41,336,263	31,387,815	10,999,871	170,113	(71,864)	193,716,722
2,655,778	—	(2,655,778)	—	—	—
—	1,770,519	(1,770,519)	—	—	—
—	—	(6,573,574)	—	—	(6,573,574)
(8,000,000)	(8,000,000)	—	—	—	—
3,184,266	—	7,429,954	—	—	—
—	—	480,958	—	—	480,958
—	—	—	—	—	143,357
—	—	—	275,728	—	275,728
—	—	—	—	50,337	50,337
—	—	—	—	—	(6,991,480)
39,176,307	25,158,334	7,910,912	445,841	(21,527)	181,102,048
144,287	—	(144,287)	—	—	—
—	192,383	(192,383)	—	—	—
—	—	(144,288)	—	—	(144,288)
—	—	(2,165,530)	—	—	(2,165,530)
—	—	—	—	—	9,718,844
—	—	—	—	—	(38,014,991)
—	—	—	82,989	—	82,989
<b>39,320,594</b>	<b>25,350,717</b>	<b>5,264,424</b>	<b>528,830</b>	<b>(21,527)</b>	<b>150,579,072</b>
—	—	5,264,424	—	—	150,579,072
—	—	7,609,085	—	—	7,609,085
—	—	—	154,554	—	154,554
<b>—</b>	<b>—</b>	<b>12,873,509</b>	<b>154,554</b>	<b>—</b>	<b>158,342,711</b>

See accompanying notes to financial statements.



## Notes to Financial Statements

December 31, 2003 and 2002

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise specified)

### (1) Organization and Business Scope

The Bank of Taiwan (the Bank) was established on May 20, 1946, as the first government-owned bank following the island's restoration to the Republic of China in 1945. The Bank became a legal entity in 1985 in accordance with the Banking Law, and transformed into a corporate entity beginning July 1, 2003, as approved by the Ministry of Finance on April 24, 2003. It has now been operating for 57 years, much of the time under the administration of the Taiwan Provincial Government. Following the phase out of the Taiwan Provincial Government on Dec. 21, 1998, the Bank was directed by the central government of the Republic of China and placed under the administration of the Ministry of Finance, in accordance with the regulations on government-owned financial institutions.

The Bank is engaged in (a) all commercial banking operations allowed under the Banking Law; (b) international banking operations; (c) overseas branch operations authorized by the respective foreign governments; and (d) other operations as authorized by the central competent authority-in-charge.

The Bank has its Head Office in Taipei, and the Bank has established domestic and worldwide branch offices for expansion of various banking services. As of December 31, 2003, in addition to the Department of Business (I) and (II), Department of International Banking, Department of Trusts, and Department of Public Treasury, Treasury, Securities and Electronic Banking at the Bank's headquarters, there were 147 domestic branches, an offshore banking unit, 7 overseas branches and one overseas representative office.

The Department of Trusts of the Bank plans manages and operates trust investments as well as foreign securities and funds.

As of December 31, 2003 and 2002, the Bank had 7,034 and 7,133 employees, respectively.

### (2) Summary of Significant Accounting Policies

#### 1) General accounting policies

The Bank is a government-owned enterprise, and its accounting practices mainly follow the Budget Law, Account Settlement Law, and Uniform Regulations of Accounting System for Banks Governed by the Ministry of Finance (the MOF). The annual financial statements are audited by the Ministry of Audit (the MOA) to ensure that the Bank complies with the budget approved by the Legislative Yuan. The financial statements become final only after such an audit by the MOA.

In 2003, the financial statements of 2002 had been approved by the MOA, and the beginning balances in 2003 were the same as the approved closing balances in 2002.

#### 2) Basis of financial statements

The financial statements include accounts of the headquarters, domestic branches, overseas branches, and overseas representative offices. All inter-office account balances and transactions have been eliminated while preparing the financial statements.

#### 3) Cash and cash equivalents

The Bank considers cash, due from banks, deposits with the Central Bank of China (CBC) (excluding deposit reserve — demand account), and marketable securities with a maturity of three months or less to be cash equivalents.

#### 4) Revenue recognition

Revenue is recognized when realized or realizable; related costs and expenses are recorded when revenue is recognized.

#### 5) Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transaction occurred. Gains or losses resulting from adjustments or settlements of foreign

currency assets and liabilities are credited or charged to income. Foreign currency assets and liabilities at the balance sheet date are translated at year-end exchange rates announced by the Central Bank (CBC closing rates), and resulting gains or losses are credited or charged to current income.

Gains or losses resulting from restating of period-end foreign-currency long-term equity investments accounted for by the equity method and from translating accumulated earnings or losses of overseas branches into New Taiwan dollars at historical rates are recorded as “cumulative translation adjustments” under stockholders' equity.

6) Trust business

As required by the Banking Law and the Rules Governing Trust and Investment Companies and for the purpose of internal management, the Bank maintains separate accounts and prepares separate sets of financial statements for its own funds and for the funds it administers on behalf of trustors. All the entrusted assets are booked to the memo account.

7) Bills and securities purchased

Bills and securities purchased, including short-term bills, listed stocks, government and corporate bonds and beneficiary certificates, held for trading or non-trading purposes are stated at cost and are evaluated by the lower-of-total-cost-or-market-value method.

Cost of commercial paper sold is determined on the basis of the specific identification method. But the cost of stocks, beneficiary certificates, bonds and other securities is based on the moving-average method.

Bonds transactions under resell or repurchase agreements are recorded as financing transactions. Short-term negotiable instruments under such agreements are accounted for as outright purchases and sales.

8) Loans and related allowance for doubtful accounts

Credit terms are decided by the term to maturity of loans. The loan period of short-term loans is within one year, the loan period of medium-term loans is one to seven years, and the loan period of long-term loans is more than seven years. Loans with pledged assets are recorded as secured loans.

Principal which is overdue over three months or interest which is overdue over six months is categorized as overdue accounts. When principal or interest has not been paid for over six months, the said principal and interest are transferred to the non-performing loans. When this occurs, interest will only be calculated and booked to the memo account.

All loans are recorded initially as the actual amount lent out and reported at their outstanding principal balances net of any provisions for doubtful accounts. In determining the allowance for credit losses, the Bank evaluates the collectability of its loan portfolio and credit guarantees based on the borrowers'/ clients' payment history and the related loan classification as non-performing, in accordance with "Rules for bank Assets Evaluation, Loss Reserve Provision, and Disposing of Overdue loans, Non-accrual Loans and Bad Debts" issued by the MOF. Probable losses are recorded as a provision for credit losses. Doubtful accounts are written off when the recovery possibility is remote. Under the MOF guidelines, write-offs of specific loans are offset against the recorded allowance for loan losses approved by the board of directors.

In accordance with Bureau of Monetary Affairs, Ministry of Finance, Ruling Tai-Tsai-Rong No. 88733168, banks should provide 3% of operating revenue as allowance for bad debt with a view to writing off the default accounts from July 1, 1999, and for the following four years.

9) Long-term investment

Long-term equity investments are accounted for by either the equity method or the cost method depending on the Bank's influence on the investees.

Investments accounted for by the equity method are stated at cost plus (or minus) a proportionate share in the investees' net earnings (losses) or changes in net worth. Shares in net earnings (net losses) are recognized as investment income (loss), and cash dividends received are accounted for as a

reduction in the carrying value of the investments.

When the equity of an investee exceeds carrying value accounted for by the equity method, the Bank recognizes the investment loss by reducing the balance of the investment to zero. But if the Bank intends to hold the stock of an investee and the investee can not make a profit in the short term, then the Bank should recognize the loss by equivalent ownership.

If the financial statements of an investee (where investment accounts for less than 50% of the investee's outstanding common stock) with the same accounting period cannot be provided in sufficient time, the investor shall record its share of the net earnings or losses of the investee in the following year based on the percentage of ownership during the investee's accounting period. The time lag between the dates of the financial statements of the investee and those of the investor shall be consistently followed and adequately disclosed in the financial statement.

Investments accounted for by the cost method are carried at cost. Cash dividends received are recognized as investment income. On the balance sheet date, if the aggregate market value of listed stocks and over-the counter stocks falls below cost, unrealized decline in market value is debited to stockholders' equity if decline is considered temporary. If the value of an unlisted stock declines and the decline is considered irrecoverable, the carrying value of this investment is adjusted to reflect the decline, and the resulting loss is charged to current income statements.

Stock dividends result only in the increase in the number of shares held but are not recognized as investment income.

When a short-term investment is reclassified to long-term investment or vice versa, the Company compares the book value of the investment to its fair value at switching date. If the market price is lower than its book value, the Company immediately recognizes those losses due to the decline in fair value and uses the fair value as the new cost basis.

Cost of investments sold is determined by the moving weighted-average method.

10) Fixed assets

Fixed assets are stated at acquisition cost including capitalization of interest and certain expenses which were incurred in connection with the construction of a plant and the installation of machinery and equipment. Major renewals, additions and improvements are capitalized, while maintenance and repairs are expensed.

Depreciation is computed on a straight-line basis over useful lives estimated as follows: buildings, 3 to 55 years; machinery and equipment, 3 to 10 years; transportation equipment, 5 to 6 years and other equipment, 3 to 8 years.

Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements. When the Bank uses fixed assets beyond their initial estimated useful lives, the depreciation of such assets is calculated by writing off the residual value of the asset using the straight-line method over the remaining estimated useful life of the asset.

Gains or losses on the disposal of fixed assets are recorded as non-operating income or loss.

The surplus arising on revaluation is credited to the revaluation reserve. Addition to revalued premises made subsequent to the revaluation are included at cost. Revaluation increments are depreciated on the same basis over the remaining useful lives at the revaluation dates.

11) Intangible assets

Intangible assets are computer software, which is amortized over a period of 5 years.

12) Other assets -collateral assumed

Collateral and assets received are stated at the net realizable value, the amount the Bank receives when debtors cannot meet obligations and the collaterals and residuals are auctioned off. Any discrepancy from the initial claim will be reflected as credit loss. Gains or losses on disposition are included in current earnings.

13) Due to banks, deposits and remittances

Deposits are recorded at the contracted principal amount or the expected maturity value. Negotiable certificates of deposit are issued at face value, and principal and accrued interest are paid on the maturity date.

14) Other liabilities -reserve for losses on guarantee

The reserve for losses on guarantee is determined by evaluating the potential losses of acceptances, guarantees and letters of credit.

15) Other liabilities -reserve for losses on trading securities

According to the "Rules Governing the Administration of Securities Firms", 10% of the excess of monthly gains on trading securities over monthly losses should be set aside as a reserve until the balance of the provision equals NT\$200 million. Such reserve can only be used to offset actual losses.

16) Other liabilities -reserve for default losses

According to the "Rules Governing the Administration of Securities Firms", 0.0028% of monthly brokerage income must be provided as a reserve for defaults until the balance of the provision equals NT\$200 million. Such reserve can only be used to offset default losses or for other purposes as approved by the SFC.

17) Other liabilities -reserve for accidental losses

By order of Ministry of Finance Order No. (63) Tai-Tsai-chien 16677 issued on October 29, 1974, reserve for accidental losses is provided based on 2% of monthly brokerage income to cover the possible losses arising from mistakes in securities processing for financial institution which engaged in securities brokerage business. The provision for accidental loss will be adjusted based on actual incurred losses.

18) Pension

Employees' retirement, relief and severance are dealt with according to "The Regulations of Employee's Retirement, Relief and Severance for State-run Financial and Insurance Enterprises Owned by the Ministry of Finance". According to Article 41.1 of the regulations, the length of service with the Bank is calculated in accordance with the formula for benefit payments set forth in the Labor Standards Laws, and contributions have been made to a fund for future pension benefits after implementation of the Labor Standards Law. The Bank contributes 3% of total monthly salaries of employees to a pension fund each month. Before implementation of the Labor Standards Law, a monthly contribution equaling 4%-8.5% of salaries had been made by the Bank as prior service cost.

All contributions made by the Bank are administered by "The Pension Fund Management and Operation Committee", which is responsible for accumulating assets of the pension fund and for making payments to the employees when retiring. For cleaning and maintenance workers, service costs equivalent to 8% of total monthly salaries for those workers are accrued over the workers'careers based on plan benefit formulas according to Article 73 of the Labor Standards Law and the "Guidelines for Contribution to and Management of Labor Pension Fund" approved by the Executive Yuan. The workers'pension fund is deposited in a trust account with the Central Trust of China for the purpose of paying pension benefits to the workers when retiring.

19) Income tax

"Expected" income tax expense is based on accounting income. Deferred income tax is determined based on differences between the financial statements and tax bases of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards, and income tax assets are evaluated, and a valuation allowance is recognized accordingly.

Since the Bank is a government-owned enterprise, income tax should be determined by the Ministry of Audit.

## 20) Financial derivatives

### 1. Forward contracts

Forward contracts for trading purposes with assets and liabilities denominated in foreign currency are recorded at the exchange rate specified in the contracts, and income/loss resulting from discrepancies between prevailing and contract rates is recognized at the settlement date. At year-end, for contracts yet to mature, adjustments would be made using the forward exchange rate for the remaining period, and any difference resulting thereby will be charged as current income/loss. Receivables and payables arising from forward contracts referred to above shall be offset with differences, if any, and recorded as an asset or liability.

### 2. Interest swaps

Provided that there is no transfer of notional principals for interest swaps, only a memo entry is made upon signing of contracts. For non-trading-purpose interest swaps, the difference in interest is recorded as hedge-related interest revenue or expense adjustment.

### 3. Cross currency swaps

If cross currency swaps are for hedging, principals are recorded using the forward contract exchange rate at the contracting date with discount or premium amortized through the period. Interest receivables or payables, calculated based upon the difference between contract and settlement rates in accordance with contract terms, will be classified as adjustments to the income or expense of the hedged items.

### 4. Asset swaps

Asset swaps involve exchanging the fixed rate interest and stock conversion rights of convertible bonds for floating rate interest. These transactions are recorded as memorandum entries on the contract date since no actual exchange of notional principals is involved. Asset swaps are used to hedge interest rate exposure of convertible bonds denominated in foreign currency. Net interest on each settlement date/balance sheet date is recorded as an adjustment to interest revenue or expense associated with the bonds being hedged.

### 5. Options

For option contracts, the premium collected from put options is recognized as advance receipts, and the premium paid for call options is recognized as prepaid expenses. The values of the option contracts are evaluated every month according to the market prices, and the differences are recognized as current period revenues or expenses.

### 6. Forward interest rate agreement (FRA)

Only memorandum entries of notional principals are made on the contract date for forward interest rate agreements. Interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expenses.

## 21) Significant commitments and contingencies

If loss from commitments and contingencies is considered highly likely and the amount can be reasonably estimated, then the loss is recognized currently. Otherwise, commitments and contingencies are only disclosed in the notes to the financial statements.

## (3) Reasons for and Effects of Accounting Changes

The Bank has modified the accrued basis for determining the interest expenses of time deposits in New Taiwan dollars due to the past experience and upgrade in computer technical facility. The change resulted in a decrease in accrued interest expenses of \$3,428,850, increase in non-operating income of \$3,428,850 and an increase in income after tax for the year ended December 31, 2003 of \$2,571,638.

The Bank is a government-owned enterprise, and its accounting practices mainly subjected to the Budget Law, Account Settlement Law and Uniform Regulations of Accounting System for the Banks Governed by the Ministry of Finance. The financial statements become final only after such an audit by the MOA. Due to the 2002 financial statements was assessed by the MOA, therefore, the above accounting change was reflected in 2003 current income.



#### (4) Government Audit Adjustments for Fiscal Year Ended December 31, 2002

The Bank's accounting records as of and for the year ended December 31, 2002 have been audited and assessed by the MOA, and resulting adjustments are summarized as follows:

	As Previously Reported	Adjustments - Increase (Decrease)	As Audited by The MOA
<b>Balance Sheet</b>			
Assets			
Due from Central Bank	\$ 288,622,270	50,000	288,672,270
Bills and securities purchased, net	260,028,155	(50,000)	259,978,155
Receivables, net	44,715,294	186	44,715,480
Long-term investments	42,552,549	(7,904)	42,544,645
Other assets, net	38,123,614	(636,394)	37,487,220
Liabilities			
Payables	50,677,651	(20,008)	50,657,643
Stockholders' equity	181,726,152	(624,104)	181,102,048
<b>Statement of income</b>			
Operating costs	70,410,765	856,429	71,267,194
Operating expenses	14,617,383	8,280	14,625,663
Non-operating income	662,546	28,474	691,020
Income before income tax	4,784,359	(836,235)	3,948,124
Income tax expense	3,679,297	(212,131)	3,467,166
Net income	1,105,062	(624,104)	480,958

#### (5) Cash

	December 31, 2003	December 31, 2002
Negotiable certificates of deposit (NCDs)	\$443,575,161	237,202,682
Cash on hand	8,177,504	7,422,701
Foreign currency on hand	2,672,655	2,363,750
Notes and checks for clearing	5,925,368	5,555,075
	<u><b>\$460,350,688</b></u>	<u><b>252,544,208</b></u>

To comply with the Central Bank's clearing system of Real-time Gross Settlement (RTGS), the Bank provided NCDs aggregating \$14,000,000 as collateral for day-terms overdraft as of December 31, 2003. The pledged amount can be adjusted anytime.

Balances of cash and cash equivalents presented in statements of cash flows were as follows:

	December 31, 2003	December 31, 2002
Cash	\$460,350,688	252,544,208
Due from banks	90,710,564	97,922,338
Due from Central Bank, including reserve -checking account and foreign-currency denominated deposit reserves	24,138,603	54,369,421
Bills and securities purchased within 90 days	80,001,652	80,850,570
<b>Total</b>	<u><b>\$655,201,507</b></u>	<u><b>485,686,537</b></u>

#### (6) Due from Central Bank

	December 31, 2003	December 31, 2002 (restated)
New-Taiwan-dollar-denominated deposit reserve -checking account and reserves for deposits -foreign-currency-denominated deposit	\$ 24,138,603	54,369,421
New-Taiwan-dollar-denominated required deposit reserve	29,550,978	28,414,367
Deposits in Central Bank	213,517,366	205,838,482
Due from Central Bank -reserve for trust fund compensation	50,000	50,000
	<b>\$267,256,947</b>	<b>288,672,270</b>

The denominated required deposit reserves are determined monthly at prescribed rates based on the average balances of customers' New-Taiwan-dollar -denominated deposits. The denominated required deposit reserve is subject to withdrawal restrictions, but reserve -checking account and foreign-currency-denominated deposit reserves may be immediately withdrawn anytime and are non-interest earning.

Additionally, as of December 31, 2003 and 2002, 60% of the reserve deposits collected on behalf of a government institution amounted to \$21,138,366 and \$20,672,309, respectively, and its use is restricted according to the regulations.

#### (7) Bills and Securities Purchased

	December 31, 2003	December 31, 2002 (restated)
Bills and securities purchased -dealing	\$188,540,208	191,373,396
Less: allowance for decline in market value	(159,962)	(361,179)
Subtotal	188,380,246	191,012,217
Securities with resale agreement	51,647,994	68,965,938
	<b>\$240,028,240</b>	<b>259,978,155</b>

According to Accounting Research and Development Foundation of the Republic of China Interpretation Letter No. (87)232 dated November 10, 1998, the trading securities in Mega Financial Holding Co., Ltd., Cathay Financial Holding Co., Ltd., Hua Nan Financial Holding Co., Ltd., China Development Financial Holding Co., Ltd. and Taiwan Fire & Marine Insurance Co., Ltd. amounting to about \$2 billion, which were held for sale should be shown as short-term investments.

Details of bills and securities purchased -dealing were as follows:

	December 31, 2003	December 31, 2002
Commercial paper	\$ 45,758,070	22,002,880
Banker's acceptances	-	86,950
Treasury bills	5,023,534	40,258,241
Government bonds	92,335,028	92,402,874
Foreign securities	30,645,454	24,848,419
Bank bonds	7,895,282	4,628,741
Company bonds	1,200,000	100,000
Listed stocks and beneficiary certificates	5,682,840	7,045,291
	<b>\$188,540,208</b>	<b>191,373,396</b>

Details of securities with repurchase/resale agreement were as follows:

	December 31, 2003	December 31, 2002
Resale agreement:		
Commercial paper	\$ 34,243,582	58,760,740
Government bonds	17,404,412	10,205,198
<b>Total</b>	<b>51,647,994</b>	<b>68,965,938</b>
Repurchase agreement:		
Government bonds	\$ 5,860,389	3,320,796

Detail of bills and securities purchased maturing within 90 days were as follows:

	<b>December 31, 2003</b>	<b>December 31, 2002</b>
Commercial paper	\$ 80,001,652	80,763,620
Banker's acceptances	-	86,950
	<b><u>\$80,001,652</u></b>	<b><u>80,850,570</u></b>

#### (8) Receivables

	<b>December 31, 2003</b>	<b>December 31, 2002 (restated)</b>
Accounts receivable	\$ 1,401,928	1,357,961
Refundable income tax	1,019,891	478,088
Accrued revenue	4,503,987	2,997,992
Interest receivable	9,727,814	21,283,218
Acceptance notes receivable	1,389,806	1,251,000
Forward contract receivables — foreign currency denominated	51,273,427	31,385,084
Less: forward contract payables in foreign currency	(30,137,834)	(15,556,311)
Others	2,824,377	2,922,772
Subtotal	42,003,396	46,119,804
Less: allowance for doubtful accounts	(1,743,348)	(1,404,324)
<b>Total</b>	<b><u>\$ 40,260,048</u></b>	<b><u>44,715,480</u></b>

#### (9) Loans, Discounts and Bills Purchased

	<b>December 31, 2003</b>	<b>December 31, 2002</b>
Discounted	\$ 4,864	15,930
Overdrafts	45,605,399	55,371,672
Secured overdrafts	1,509,882	1,892,586
Bills purchased for import and export negotiation	3,504,323	3,503,255
Short-term loans	189,281,688	124,073,527
Short-term secured loans	70,400,841	65,043,851
Receivables from securities financing	301,152	107,629
Medium-term loans	153,276,696	197,033,808
Medium-term secured loans	81,149,879	85,165,690
Long-term loans	297,179,667	395,007,052
Long-term secured loans	210,335,850	223,659,152
Subtotal	1,052,550,241	1,150,874,152
Less: allowance for doubtful accounts	(4,519,986)	(10,940,030)
	<b><u>\$1,048,030,255</u></b>	<b><u>1,139,934,122</u></b>

Movements of allowance for doubtful accounts in years 2003 and 2002 were as follows:

	<b>2003</b>			
	<b>Risk of certain uncollectable debts</b>	<b>Country risk</b>	<b>Potential risk of total debts</b>	<b>Total</b>
Beginning balance	\$ 12,651,308	1,330,098	1,404,324	15,385,730
Add: provision for doubtful accounts	2,937,878	1,364,733	6,497	4,309,108
Bank of Taiwan (Europe) N.V. provision	-	430	-	430
Less: write-off	(7,129,067)	(147,634)	-	(7,276,701)
Foreign exchange translation adjustments	-	(4,645)	-	(4,645)
<b>Ending balance</b>	<b><u>\$ 8,460,119</u></b>	<b><u>2,542,982</u></b>	<b><u>1,410,821</u></b>	<b><u>12,413,922</u></b>

	2002 (restated)			
	Risk of certain uncollectable debts	Country risk	Potential risk of total debts	Total
Beginning balance	\$18,876,583	1,606,717	3,250,505	23,733,805
Add: provision for doubtful accounts	17,066,295	673,915	(1,846,181)	15,894,029
Credit union provision	2,316	-	-	2,316
Less: write-off	(23,293,886)	(947,241)	-	(24,241,127)
foreign exchange translation adjustments	-	(3,293)	-	(3,293)
<b>Ending balance</b>	<b>\$ 12,651,308</b>	<b>1,330,098</b>	<b>1,404,324</b>	<b>15,385,730</b>

Details of allowance for doubtful accounts were as follows:

	December 31, 2003	December 31, 2002
Receivables	\$ 1,743,348	1,404,324
Long-term receivables	99,977	-
Loans, discounts and bills purchased	4,519,986	10,940,030
Non-performing loans	6,050,611	3,041,376
	<b>\$ 12,413,922</b>	<b>15,385,730</b>

As of December 31, 2003 and 2002, the amount of loans with non-accumulating interest revenues was \$25,800,757 and \$32,639,151 respectively, which was booked as other assets-non-performing loans. As of December 31, 2003 and 2002, the estimation of non-accumulating interest revenues was \$4,571,656 and \$4,720,382, respectively.

For the years ended December 31, 2003 and 2002, the Bank had not written off credits without any legal proceedings having been initiated.

#### (10) Long-term Investments

Name of Investee	December 31, 2003		December 31, 2002	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Equity method:				
Hua Nan Financial Holdings Co., Ltd.	29.36	\$ 11,324,031	31.00	16,292,064
Taiwan Business Bank, Ltd.	28.32	8,394,744	27.92	7,244,621
Taiwan Life Insurance Co., Ltd.	27.00	1,492,714	25.85	1,248,990
Taiwan Fire & Marine Insurance Co., Ltd.	17.97	546,958	21.09	520,798
Tang Eng Iron Works Co., Ltd.	44.00	-	44.00	-
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	1,884,423	91.86	1,905,607
Tai Yi Real-Estate Management Co., Ltd.	30.00	-	30.00	-
Bank of Taiwan (Europe) N.V.	-	-	100.00	779,889
		<b>23,642,870</b>		<b>27,991,969</b>
Cost method:				
Listed companies				
China Petrochemical Development Corp.	0.16	\$ 15,609	0.75	71,931
Fair value as of Dec. 31, 2003 and 2002, was \$12,338 and \$53,120, respectively.				

Name of Investee	December 31, 2003		December 31, 2002	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
First Financial Holding Co., Ltd. (Formerly First Commercial Bank Co., Ltd.) Fair value as of Dec. 31, 2003 and 2002, was \$10,346,235 and \$10,612,748, respectively.	8.10	\$ 3,311,688	12.32	3,466,290
Chang Hwa Bank Co., Ltd. Fair value as of Dec. 31, 2003 and 2002, was \$90,203 and \$129,873, respectively.	0.12	43,217	0.21	58,367
Bank of Overseas Chinese Fair value as of Dec. 31, 2003 and 2002, was \$7,426 and \$4,457, respectively.	0.13	15,033	0.14	16,033
Cathay Financial Holding Co., Ltd. (Formerly United World Chinese Commercial Bank Co., Ltd.) Fair value as of Dec. 31, 2003 and 2002, was \$7,087,405 and \$4,977,547, respectively.	1.65	376,654	1.63	380,395
Taiwan Navigation Co., Ltd. Fair value as of Dec. 31, 2003 and 2002, was \$513,700 and \$387,690, respectively.	7.54	172,020	9.27	211,500
Mega Financial Holding Company Fair value as of Dec. 31, 2003 and 2002, was \$4,807,968 and \$3,720,086, respectively.	2.06	471,268	2.06	474,345
Taiwan Tea Corp. Fair value as of Dec. 31, 2003 and 2002, was \$0 and \$13,176, respectively.	-	-	0.32	5,858
Taiwan Development & Trust Corp. Fair value as of Dec. 31, 2003 and 2002, was \$75,812 and \$103,327, respectively.	12.27	368,020	13.38	401,270
China Development Financial Holding Corp. Fair value as of Dec. 31, 2003 and 2002, was \$2,923,405 and \$2,334,932, respectively.	1.56	381,158	1.57	385,264
Fuh-Hwa Financial Holding Co., Ltd. (Formerly Fuh-Hwa Securities Finance Co., Ltd.) Fair value as of Dec. 31, 2003 and 2002, was \$2,068,631 and \$1,819,489, respectively.	6.69	820,342	6.75	828,820
		5,975,009		6,300,073
<b>Total Fair value</b>		<b>\$27,933,123</b>		<b>24,156,472</b>



Name of Investee	December 31, 2003		December 31, 2002	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Unlisted companies				
Taiwan Sugar Corp.	0.30	\$ 50,674	0.30	50,673
Taiwan Power Company	2.62	6,805,780	2.62	6,805,780
Taiwan Machinery Manufacturing Corp.	1.60	-	1.60	-
Taiwan Stock Exchange Corp.	5.01	120,132	5.01	120,132
Taiwan Television Enterprise Co., Ltd.	14.37	155,150	14.37	155,150
Taiwan Chung Hsing Paper Corp.	9.54	-	9.54	-
Taiwan Shing Sheng Press Enterprise Company	0.23	-	0.23	-
China Trade & Development Corp.	1.91	12,501	1.91	12,501
China Daily News Corp.	10.32	10,320	10.32	10,320
Taiwan Motor Transport Corp.	0.001	-	0.001	-
China Shipbuilding Corp.	0.24	26,972	0.40	36,117
Central Motion Picture Corp.	15.16	30,000	15.16	30,000
International Investment Trust Co., Ltd.	7.74	20,000	7.74	20,000
United Taiwan Bank S.A.	10.00	125,921	10.00	125,921
Taipei Forex Inc.	3.53	7,000	3.53	7,000
Taiwan Futures Exchange Corp.	1.30	26,000	1.30	26,000
Taiwan Assets Management Corp.	3.97	700,000	3.97	700,000
Bankpro E-service Technology Co., Ltd.	3.33	4,500	5.00	4,500
Taiwan Financial Assets Service Corp.	2.94	50,000	2.97	50,000
Financial Information Service Co., Ltd.	1.53	65,092	1.53	65,092
Taiwan Cooperative Bank	0.09	23,417	0.09	23,417
Financial eSolution Co., Ltd.	3.64	10,000	8.33	10,000
Taiwan High Speed Rail Corp. (preferred stock)	-	2,000,000	-	-
		10,243,459		8,252,603
		<b>\$39,861,338</b>		<b>42,544,645</b>

1. The Bank recognized an unrealized gains on market value recovery of long-term equity investments amounting to \$0 and \$50,337 on December 31, 2003 and 2002, respectively, and the Bank increased its cumulative translation adjustments under stockholders' equity by \$67,540 and \$127,424 on December 31, 2003 and 2002, respectively.
2. The Bank recognized a capital surplus amounting to \$144,600 from investee accounted under the equity method on December 31, 2002, booked as long-term investment and capital surplus.
3. In January 2003, the Bank increased its long-term investment in preferred stock of Taiwan High Speed Rail Corp. by \$2,000,000. As of December 31, 2003, the Bank accrued construction dividends amounting to \$91,667, booked as receivables and gain on long-term equity investments.
4. The long-term equity investments which decreased capital to make up a deficit were as follows:

Name of Investee	Decrease (shares)	Loss recognized
China Shipbuilding Corp.		
February 28, 2003 (booked in 2002)	790,395	\$ 7,904
October 8, 2003	324,240	3,242
December 16, 2003	590,263	5,903
	<b>1,704,898</b>	<b>\$ 17,049</b>
Bank of Overseas Chinese December 23, 2002	<b>1,603,300</b>	<b>\$ 6,257</b>

5. In order to integrate the operations in Europe, it was resolved in the directors' meeting to close the Amsterdam branch and Bank of Taiwan (Europe) N.V. The closing was approved ceased by MOF and the Central Bank of the Netherlands in June 2003. The Bank ceased operation of Bank of Taiwan (Europe) N.V. in June 2003, and decided to cease operation of Amsterdam branch in 2004.

6. The cash dividends received from investees under the equity method were as follows:

<b>Name of Investee</b>	<b>2003</b>	<b>2002</b>
Taiwan Life Insurance Co., Ltd.	\$ 181,481	164,983
Taiwan Fire & Marine Insurance Co., Ltd.	28,056	41,387
Hua Nan financial Holdings Co., Ltd.	-	257,834
	<u><b>\$ 209,537</b></u>	<u><b>464,204</b></u>

The cash dividends received from investee under the lower-of-cost-or-market-value method and the cost method were \$788,843 and \$1,064,711 as of December 31, 2003 and 2002, respectively.

7. Details of the long-term investment which the Bank disposed of were as follows:

<b>Name of Investee</b>	<b>Proceeds</b>	<b>Book Value</b>	<b>Gain (Loss)</b>
Chang Hwa Bank Co., Ltd.	\$ 34,333	15,150	19,183
Taiwan Development & Trust Corp.	6,742	33,250	(26,508)
Taiwan Navigation Co., Ltd.	117,719	39,479	78,240
Fuh-Hwa Holding Co., Ltd.	21,200	8,479	12,721
First Financial Holding Co., Ltd.	478,236	154,603	323,633
Taiwan Tea Corp.	15,009	5,858	9,151
China Petrochemical Development Corp.	45,045	56,322	(11,277)
Bank of Overseas Chinese	523	1,000	(477)
	<u><b>\$ 718,807</b></u>	<u><b>314,141</b></u>	<u><b>404,666</b></u>

8. On December 23, 2002, the Bank sold 10,000 thousand shares of the investee Taiwan Business Bank evaluated under the equity method. The Bank received \$61,149 and wrote off the book value of \$81,583, capital surplus of \$1,243, and cumulative translation adjustments of \$18, and recognized loss of \$19,173 on long-term investment.

9. Details of the long-term investments which were reclassified to short-term investments in 2003 were as follows:

	<b>Book Value</b>
Mega Financial Holding Company	\$ 3,077
China Development Financial Holding Corp.	4,105
Cathay Financial Holding Co., Ltd.	3,741
Taiwan Fire & Marine Insurance Co., Ltd.	98,158
	<u><b>\$ 109,081</b></u>

The market price of the above investments was higher than its book value on the date of reclassification.

10. The original cost of long-term equity investment under the equity method was as follows:

<b>Name of Investee</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>
Hua Nan Financial Holdings Co., Ltd.	\$ 8,105,279	8,105,279
Taiwan Business Bank, Ltd.	6,323,648	6,323,648
Taiwan Life Insurance Co., Ltd.	812,325	812,325
Taiwan Fire & Marine Insurance Co., Ltd.	256,514	302,549
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,870	1,377,870
Tang Eng Iron Works Co., Ltd.	3,080,170	3,080,170
Bank of Taiwan (Europe) N.V.	-	560,000
Tai Yi Real Estate Management Co., Ltd.	15,000	15,000
	<b>\$ 19,970,861</b>	<b>20,576,841</b>

11. The gains and losses from long-term equity investment under the equity method were as follows:

<b>Name of Investee</b>	<b>2003</b>	<b>2002</b>
Hua Nan financial Holdings Co., Ltd.	\$ (4,968,032)	3,680,898
Taiwan Business Bank, Ltd.	1,150,123	(2,136,944)
Taiwan Life Insurance Co., Ltd.	425,205	418,648
Taiwan Fire & Marine Insurance Co., Ltd.	152,374	125,364
Tang-Eng Iron Works Co., Ltd.	-	(568,157)
Kaohsiung Ammonium Sulfate Co., Ltd.	(21,184)	346,887
Bank of Taiwan (Europe) N.V.	1,417	1,340
	<b>\$ (3,260,097)</b>	<b>1,868,036</b>

The gains above included the amortization of the difference between investment cost and the investee's net equity, due to the accounting method changing from the cost method to the equity method in 2001. The amount was \$5,255,068 and \$5,271,118 in 2003 and 2002, respectively.

The gains and losses of the investees were recognized by proportionate share based on the investees' financial statements audited by other auditors. Excluding Tang-Eng Iron Works Co., Ltd., a government-owned enterprise, their financial statements have been examined by the MOA.

12. The net gains and losses on long-term equity investments were as follows:

	<b>2003</b>	<b>2002</b>
Accrued dividends from Taiwan High Speed Rail Corp. preferred stock	\$ 91,667	-
Losses on decrease in capital	(9,145)	(14,161)
Cash dividends under the cost method	788,843	1,064,711
Gain (Loss) on disposal of long-term investments	404,667	(19,173)
Gain (Loss) from long-term investments under the equity method	(3,260,097)	1,868,036
	<b>\$ (1,984,065)</b>	<b>2,899,413</b>

#### (11) Long-term Receivables

	<b>December 31, 2003</b>	<b>December 31, 2002 (restated)</b>
Long-term receivables	\$33,325,590	23,400,581
Less: allowance for doubtful accounts	99,977	-
	<b>\$33,225,613</b>	<b>23,400,581</b>

The period of long-term receivables is more than one year.

## (12) Fixed Assets

	December 31, 2003	December 31, 2002 (restated)
Cost:		
Land (including revaluation increments)	\$ 84,557,641	78,950,619
Buildings	10,654,870	9,693,128
Machinery and equipment	3,797,293	3,617,529
Transportation equipment	1,040,243	891,087
Miscellaneous equipment	743,981	740,152
Leasehold improvements	305,804	287,180
Construction in progress and prepayment for equipment	85,959	1,040,195
	<b>\$101,185,791</b>	<b>95,219,890</b>
Accumulated depreciation:		
Buildings	\$ (2,915,785)	(2,716,910)
Machinery and equipment	(2,189,298)	(1,988,388)
Transportation equipment	(625,889)	(576,939)
Miscellaneous equipment	(510,862)	(491,896)
Leasehold improvements	(206,972)	(176,894)
	<b>(6,448,806)</b>	<b>(5,951,027)</b>
Net	<b>\$ 94,736,985</b>	<b>89,268,863</b>
Movement of accumulated depreciation:		
	December 31, 2003	December 31, 2002 (restated)
Beginning balance	\$ 5,951,027	5,358,499
Add: depreciation for the period	858,426	735,065
Less: decrease for the period	(366,808)	(150,682)
Foreign exchange translation adjustment	6,161	8,145
Ending balance	<b>\$ 6,448,806</b>	<b>5,951,027</b>

There have been many revaluations of land and buildings, with the latest in April, 2003. As of December 31, 2003 and 2002, the total increment, including land and buildings, was \$72,807,444 and 63,088,600, respectively, and the estimated tax on the increment was \$39,897,073 and \$2,799,776, respectively, booked as long-term liabilities. The net increment is treated as capital surplus.

As of December 31, 2003 and 2002, property and equipment did not serve as guarantee, or collateral, nor were they pledged.

As of December 31, 2003, the cost (including revaluation increments) of the rental land was \$32,947,382. Most of the rental buildings have been depreciated over the useful lives. The estimated future lease revenue were as follows:

Fiscal Year	Amount
2004	\$ 416,000
2005	416,000
2006	416,000
2007	416,000
2008	416,000
	<b>\$ 2,080,000</b>

### (13) Other Assets

	December 31, 2003	December 31, 2002 (restated)
Non-operating assets, net	\$ 4,442,866	1,879,303
Collaterals assumed, net	1,197,074	1,202,304
Operating and settlement deposits	252,278	236,103
Refundable deposits	209,972	204,364
Non-performing loans (net of allowance)	20,868,564	31,368,107
Customer advance and accounts awaiting clearance	1,985	306,978
Deferred tax assets, net	447,960	1,084,346
Deferred pension costs	530,873	523,991
Assets waiting to be transferred	360,910	364,211
Others	328,977	317,513
	<u><b>\$ 28,641,459</b></u>	<u><b>37,487,220</b></u>

#### 1) Non-operating assets, net

	December 31, 2003	December 31, 2002
Land	<u><b>\$ 4,442,866</b></u>	<u><b>1,879,303</b></u>

As of December 31, 2003 and 2002, the land mentioned above amounting to \$1,531,252 and \$1,631,760 had been seized, and the Bank has requested the occupying party to rent, purchase or bid for this property.

#### 2) Collateral assumed, net

	December 31, 2003	December 31, 2002
Collateral assumed	\$ 1,201,869	1,202,304
Less: allowance for decline in market value	(4,795)	-
	<u><b>\$ 1,197,074</b></u>	<u><b>1,202,304</b></u>

#### 3) Non-performing loans, net

	December 31, 2003	December 31, 2002
Non-performing loans	\$ 26,919,175	34,409,483
Less: allowance for doubtful accounts	(6,050,611)	(3,041,376)
	<u><b>\$ 20,868,564</b></u>	<u><b>31,368,107</b></u>

### (14) Due to Banks

	December 31, 2003	December 31, 2002
Due to banks	\$ 25,074,883	27,866,295
Bank overdrafts	1,532,990	1,554,005
Call loans from bank	82,121,260	88,178,798
	<u><b>\$108,729,133</b></u>	<u><b>117,599,098</b></u>

### (15) Borrowed from Central Bank and Other Banks

	December 31, 2003	December 31, 2002
Funds borrowed from banks	<u><b>\$ 10,255,132</b></u>	<u><b>10,035,819</b></u>



### (16) Payables

	December 31, 2003	December 31, 2002 (restated)
Accounts payable	\$ 6,116,090	5,599,880
Advance receipts	1,595,306	1,578,615
Accrued expense	2,177,519	2,391,647
Income tax payable	26,294	2,687
Interest payable	12,215,168	16,840,383
Banker's acceptances payable	1,410,028	1,287,941
Forward settlement payable — foreign currencies	48,144,658	39,707,801
Less: forward proceeds receivable	(27,240,963)	(23,983,872)
Other payables	7,432,204	7,232,281
Others	2,761	280
	<u>\$51,879,065</u>	<u>50,657,643</u>

### (17) Deposits and Remittances

	December 31, 2003	December 31, 2002
Checking account	\$ 22,650,887	19,481,179
Government deposits	299,371,618	291,024,053
Demand deposits	84,132,364	72,758,698
Time deposits	183,351,717	204,251,358
Postal deposits transferred	85,470,958	87,048,139
Remittances	527,562	1,465,450
Savings account:		
Demand deposits	231,924,621	200,993,401
Staff accounts	14,943,506	13,874,072
Installment savings	1,064,448	1,055,202
Time savings deposits	382,864,984	370,937,669
Annuity savings deposits	276	666
Interest-drawing savings	302,104,740	293,819,912
Premium interest-drawing savings	396,325,991	374,566,453
	<u>\$2,004,733,672</u>	<u>1,931,276,252</u>

As of December 31, 2003 and 2002, the period of maturity for the above deposit accounts, except for demand deposits, was between one month and three years.

### (18) Long-term Liabilities

	December 31, 2003	December 31, 2002
Appropriated loan funds	\$ 2,677,787	2,960,694
Estimated tax payable on land increment	39,897,073	2,799,775
Accrued pension liabilities	1,116,322	930,477
	<u>\$ 43,691,182</u>	<u>6,690,946</u>

### (19) Other Liabilities

	December 31, 2003	December 31, 2002
Reserve for guarantees	\$ 774,487	612,526
Reserve for foreign exchange losses	1,180	654
Reserve for losses on trading securities	84,675	87,113
Reserve for default losses	11,682	10,369
Reserve for accidental losses	7,724	7,063
Guarantee deposits received	876,669	934,988
Temporary received and waiting to be transferred	279,751	211,782
Reserve for interest and principal repayment	29,903	29,903
Others	62,193	70,399
	<u>\$ 2,128,264</u>	<u>1,964,797</u>

## (20) Pension

The reconciliation of the plan's funded status and accrued pension liabilities was as follows:

	December 31, 2003		December 31, 2002	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	\$ (2,173,418)	(237,503)	(1,963,923)	(208,485)
Nonvested benefit obligation	(1,565,196)	(190,069)	(1,224,441)	(173,382)
Accumulated benefit obligation	(3,738,614)	(427,572)	(3,188,364)	(381,867)
Additional benefits based on future salaries	(1,118,578)	(105,058)	(1,052,323)	(110,376)
Projected benefit obligation (PBO)	(4,857,192)	(532,630)	(4,240,687)	(492,243)
Fair value of plan assets	2,724,202	325,662	2,357,048	282,706
Funding status	(2,132,990)	(206,968)	(1,883,639)	(209,537)
Unrecognized net transition obligation (assets)	756,923	189,679	845,973	209,646
Unrecognized prior year service cost	317,427	(41,955)	337,906	(45,603)
Unrecognized loss (gain)	551,260	(18,825)	354,050	(15,282)
Deferred pension cost (booked as other assets)	(507,032)	(23,841)	(485,606)	(38,385)
Accrued pension cost (booked as long-term liabilities)	<b>\$ (1,014,412)</b>	<b>(101,910)</b>	<b>(831,316)</b>	<b>(99,161)</b>
<b>Vested benefit</b>	<b>\$ (2,800,005)</b>	<b>(290,110)</b>	<b>(2,602,559)</b>	<b>(267,110)</b>

The components of net pension cost for the years 2003 and 2002 were as follows:

	2003		2002	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	\$ 560,455	39,107	589,419	37,561
Interest cost	144,451	16,685	156,257	18,782
Projected return on plan assets	(90,331)	(10,122)	(91,068)	(10,540)
Amortization and deferred cost	109,529	16,319	109,529	16,319
<b>Net pension cost</b>	<b>\$ 724,104</b>	<b>61,989</b>	<b>764,137</b>	<b>62,122</b>

Actuarial assumptions:

	2003	2002
Discount rate	3.50%	4.00%
Rate of increase in future compensation	2.25%	2.75%
Rate of projected return on plan assets	3.50%	4.00%

## (21) Stockholders' Equity

- 1) It was resolved in the stockholders' meeting in 2002 to increase capital from \$32,000,000 to \$48,000,000. The increment was appropriated from legal reserve in the amount of \$8,000,000 and special reserve in the amount of \$8,000,000.

The application for capital increase was approved by the Ministry of Finance on April 3, 2002, and the budget was approved by the Legislative Yuan.

- 2) The composition of capital surplus was as follows:

	December 31, 2003	December 31, 2002
Revaluation increment on land	\$ -	60,288,824
Capital surplus from investee	-	143,357
Additional paid-in capital	97,314,648	-
	<b>\$ 97,314,648</b>	<b>60,432,181</b>

According to the ROC Company Law, capital surplus can only be used to offset an accumulated deficit or to increase share capital, and cannot be distributed as cash dividends.

In 2002, the bank transferred the capital surplus, which was transferred from disposal of capital gain, to undistributed earnings in the amount of \$7,429,954 and legal reserve in the amount of \$3,184,266. The Bank also transferred land in Tien-Mu district previously rented to the Taipei American School to the National Property Management Bureau. Therefore the Bank wrote off the revaluation increment on land amounting to \$6,991,480.

The Bank revalued its properties on April 30, 2003. The revaluation increments amounted to \$9,718,844. Reserve for land value increment tax (included in long-term liabilities) amounted to \$38,014,991. The amount net tax was deducted from capital surplus.

In accordance with Bureau of Monetary Affairs, Ministry of Finance, Ruling Tai-Tsai-Rong No. 0928010612, the amount of \$65,178,614 (including legal reserve of \$39,320,594, special reserve of \$25,350,717, cumulative translation adjustments of \$528,830 and unrealized loss on market value decline of long-term equity investments of \$21,527), which was the amount of the net assets in excess of shares issued, was transferred to capital surplus when the Bank transformed into a corporate entity on July 1, 2003. The net loss for the six months ended June 30, 2003, amounting to \$2,165,530, which has not been assessed by the MOA, and the capital surplus, which was transferred from disposal of capital gain to undistributed earnings in the amount of \$7,429,954, and will be distributed to the government in the future in accordance with Bureau of Monetary Affairs, Ministry of Finance, Ruling Tai-Tsai-Rong No. 0918011045, were booked in their original accounts.

3) Legal reserve and appropriation of earnings

The articles of incorporation of the Bank stipulate that net income should be distributed as follows:

1. to pay income tax;
2. to offset prior years' deficit;
3. to appropriate 30% as legal reserve;
4. to appropriate 40% as special reserve

The remaining balance is retained or appropriated upon approval of the Bank's stockholders.

According to the Banking Law, before the legal reserve balance reaches the total amount of capital, cash dividends are limited to 15% of total capital.

4) Imputation credit account information

As of December 31, 2003 and 2002, the balance of the ICA (imputation credit account) was as follows:

	December 31, 2003 (expected)	December 31, 2002 (actual)
Balance of ICA	\$ 7,449,614	6,732,916

The imputation tax creditable ratio for both 2003 and 2002 was approximately 33.33%.

As of December 31, 2003 and 2002, unappropriated retained earnings were as follows:

	December 31, 2003	December 31, 2002
1997 and before	\$ -	-
1998 and after	12,873,509	7,910,912
	<u>\$ 12,873,509</u>	<u>7,910,912</u>

## (22) Income Tax

The Bank is subject to ROC income tax at a maximum rate of 25%. The income tax expense for 2003 and 2002 is summarized below:

	2003	2002 (restated)
Current income tax	\$ 1,023,092	1,329,857
Deferred tax expense	636,387	2,137,309
<b>Income tax expense</b>	<u><b>\$ 1,659,479</b></u>	<u><b>3,467,166</b></u>

For the years ended December 31, 2003 and 2002, the differences between "expected" income tax at the statutory income tax rate and the income tax expense in the accompanying financial statements were as follows:

	2003	2002 (restated)
Expected income tax expense	\$ 1,775,759	987,031
Tax effect of interest income from short-term notes separately taxed	(584,923)	(568,631)
Securities trading loss (gain)	(1,132,301)	178,698
Tax-free earnings from OBU	(99,277)	(48,017)
Investment loss (income) recognized under equity method	815,024	(467,009)
Gain on sale of land	(1,370)	(4,192)
Unrealized exchange loss (gain)	(108,266)	17,171
Dividend free of tax	(253,717)	(302,487)
Amount not deductible	-	3,678,915
Allowance for deferred tax assets	1,081,147	-
Income tax expense (benefits) for overseas branches	146,263	(4,313)
Others	21,140	-
<b>Income tax expense</b>	<b>\$ 1,659,479</b>	<b>3,467,166</b>

For the years ended December 31, 2003, and 2002, the major components of deferred income tax expense were as follows:

	2003	2002 (restated)
Pension costs disallowed per tax regulation	\$ 2,428	(38,066)
Allowance for bad and doubtful accounts in excess of legal limitation	543,548	1,895,607
Reserve for losses on trading bills and securities	609	(3,748)
Allowance for loss on decline in market value of short-term investments	90,295	464,776
Others	(493)	(181,260)
<b>Deferred income tax expense</b>	<b>\$ 636,387</b>	<b>2,137,309</b>

The temporary differences, loss carryforward, and tax effects relating to deferred income tax assets were as follows:

	December 31, 2003		December 31, 2002 (restated)	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax asset - noncurrent				
Pension costs disallowed per tax regulation	\$ 585,449	146,362	595,159	148,790
Allowance for bad and doubtful accounts in excess of legal limitation	1,102,308	275,577	3,276,502	819,125
Reserve for losses on trading bills and securities	84,675	21,169	87,113	21,778
Allowance for loss on decline in market value of marketable securities	-	-	361,179	90,295
Loss carryforward	4,324,587	1,081,147	-	-
Others	19,406	4,852	17,433	4,358
	6,116,425	1,529,107	4,337,386	1,084,346
Allowance for deferred income tax assets - noncurrent	(4,324,587)	(1,081,147)	-	-
Deferred income tax assets, net - noncurrent (booked as other assets)	<b>\$ 1,791,838</b>	<b>447,960</b>	<b>4,337,386</b>	<b>1,084,346</b>

For the years ended December 31, 2003 and 2002, the components of income tax payable were as follows:

	December 31, 2003	December 31, 2002
Current income tax expense	\$ 1,023,092	1,329,857
Income tax on separately taxed short-term bills	(876,829)	(1,334,170)
Income tax paid by overseas branches	(146,263)	4,313
Prepaid and withheld tax	(525,652)	(434,665)
Income tax receivable (booked as receivables)	<u>\$ (525,652)</u>	<u>(434,665)</u>

The Bank's income tax returns through 2001 have been examined by the tax authorities.

## (23) Disclosure of Financial Instruments

### 1) Financial derivatives

The bank has entered into interest and cross-currency swap contracts for nontrading purposes to hedge interest and exchange rate risk of foreign currency liabilities and assets. The hedging strategies are intended to avoid most market price fluctuation risk. In addition to mainly borrowing US dollars at floating interest rates from overseas banks to make loans of US dollars at fixed interest rates or purchasing US dollar or other currency securities at fixed interest rates in the international financial market, they also include making interest or cross-currency swap contracts with overseas financial institutions to avoid the risk of unsteady interest and exchange rates and to fix interest revenue on loans and gains on securities purchased.

The financial derivatives of the Bank on December 31, 2003 and 2002, and their contract amount, credit risk and fair market value were as follows:

Item Financial instrument	December 31, 2003			December 31, 2002		
	Contract amount	Credit risk	Fair value	Contract amount	Credit risk	Fair value
Non-trading purpose						
Interest-rate swap	9,750,736	294,825	107,494	10,207,322	1,322,041	10,052,617
Cross-currency swap	5,188,668	28,807	(206,048)	5,840,007	455,625	5,651,115
FRA	-	-	-	47,823,215	1,564,492	49,927,141
Option	1,647,985	215	(90)	31	-	31
Asset Swap	1,597,906	-	102,763	347,800	-	340,218

Credit risk indicates the Bank's possible loss in the event of contract default by the counter-party. However, before the Bank enters into forward contracts with clients, the counter-party must go through the credit authorization process of the Bank and provide enough pledged properties. Subsequent to the granting of a line of credit, transactions would be limited thereto. The other parties to forward contracts and transactions with clients are credit-authorized import and export clients, and the Bank would collect a proper guarantee deposit depending on their credit authorization. If the counter-party is another bank, it is evaluated based upon worldwide ranking and credit valuation. After a line of credit is granted, transactions are limited thereto. Consequently, credit risk is limited. In addition, the forward contracts are designed to have a balanced position, and the risk of interest and exchange rate fluctuation is not supposed to exist. In addition, there is no significant demand on cash, and forward contracts are mainly in international currencies for which liquidity risk is very low.

Fair value of each forward exchange contract and currency swap contract is determined based on the forward exchange rate for the remaining term quoted by the Central Bank. The Bank estimates the fair value of individual IRS, CCS or AS contracts based on the quotations of Bloomberg Information System.

All counter-parties to the IRS, CCS or AS agreements are banks with long-term credit rating of at least A by international credit rating organization. Therefore, the associated credit risk is deemed very limited. Because the Bank enters into IRS, CCS and AS agreements for hedging purpose, no significant gains or losses would result from fluctuations in interest rates and foreign exchange rates, and there is no significant demand for cash.

The forward positions have been offset by the opposite spot or forward positions, so no significant gains or losses would result from exposure in interest rates and foreign exchange rates, and there is no significant demand for cash.

The gains and losses from the Bank's derivative transactions recorded in the income statements as of December 31, 2003 and 2002, were losses of \$139,046 and gains of \$70,521, respectively.

2) Fair market value of nonderivative derivative financial instruments

	December 31, 2003		December 31, 2002	
	Book value	Fair market value	Book value	Fair market value
<b>Financial asset</b>				
Book value equivalent to fair market value	\$2,147,467,918	2,147,467,918	2,084,206,855	2,084,206,855
Long-term equity investments	39,861,338	61,819,452	42,544,645	60,401,044
	<u>\$2,187,329,256</u>	<u>2,209,287,370</u>	<u>2,126,751,500</u>	<u>2,144,607,899</u>
<b>Financial liability</b>				
Book value equivalent to fair market value	<u>\$2,192,515,920</u>	<u>2,192,515,920</u>	<u>2,132,555,345</u>	<u>2,132,555,345</u>

Methods and assumptions used by the Bank in estimating the fair value of financial instruments were as follows:

1. The face value of short-term financial instruments is used to estimate the fair value as stated on the balance sheets. Since these instruments will become due shortly, the face value serves as a reasonable basis to estimate fair value. It is applicable to cash, due from and placement to other banks, due from Central Bank, interest receivable, accounts receivable and others, other assets, deposits by banks, securities sold under repurchase agreements, interest payable, and accounts payable.
2. If market prices of marketable securities are available, then market prices are used as fair value. If there is no market price available for reference, then fair value is estimated from financial or other information.
3. Loans and advances are valued by using the floating rate, and book value serves as fair value.
4. Deposits and remittances mainly mature within one year. The book value is used as fair value plus interest when the maturity period is over a year.
5. Other assets — collateral and residuals taken over have been revalued at the balance sheet date to their net realizable value, and the book value was used as fair value.

3) Financial instruments with off-balance-sheet credit risk

As of December 31, 2003 and 2002, the contract amounts of financial instruments with off-balance-sheet credit risk held by the Bank were as follows:

	December 31, 2003	December 31, 2002
Commitments for guarantees and letters of credit	\$ 76,853,174	63,721,832
Commitments for credit cards	16,982,830	10,340,776
Irrevocable loan commitments	215,977,191	193,000,963
Total	<u>\$ 309,813,195</u>	<u>267,063,571</u>

The above is applicable to cash and cash equivalents since these financial instruments will not be settled prior to their due dates. The contract amount is not representative of future cash outflows, indicating that future cash demand is less than the contract amount.

The contract amount is equivalent to the fair value for the above guarantees and letters of credit.

4) Concentration of credit risk — loans

Concentration of credit risk arises if there is only one party in financial instrument transactions, or if there are a number of parties, all engaged in similar businesses or sharing similar features resulting in their ability to meet contractual obligations being collectively affected by changes in economic or other conditions. Financial instrument transactions of the Bank do not appear to concentrate on one client, one counter-party, or a single industry, yet they do seem to concentrate within a confined geographic region with counter-parties exhibiting similar industry patterns.



1. Loans classified by geographical region

	December 31, 2003	December 31, 2002
Domestic	\$1,023,973,780	1,135,152,343
Overseas	55,495,636	50,131,292
Total	<u>\$1,079,469,416</u>	<u>1,185,283,635</u>

2. Loans classified by industry

	December 31, 2003	December 31, 2002
Government	\$ 436,336,368	552,134,889
Individuals	276,808,005	259,130,740
Manufacturing	173,538,840	144,072,558
Overseas	55,495,852	50,131,292
Telecommunication and transportation	44,461,793	53,745,183
Retailing	24,636,545	25,598,975
Utilities	19,179,962	15,957,715
Construction	16,046,147	13,581,838
Services	7,882,137	9,135,546
Real estate and rental	7,625,219	6,127,727
Food and restaurants	2,313,262	2,434,830
Nonprofit	2,076,398	1,889,689
Farming, forestry and fishing	759,488	837,682
Social insurance and pension fund	4,650,000	-
Bills finance	909,973	-
Insurance	2,545,000	7,053,000
Others	4,204,427	43,451,971
Total	<u>\$1,079,469,416</u>	<u>1,185,283,635</u>

## (24) Related-party Transactions

1) Names and relationship of related parties

Name	Relationship
Hua Nan Financial Holdings Co., Ltd.	Investee Company of the Bank under the equity method
Taiwan Business Bank, Ltd.	Investee Company of the Bank under the equity method
Taiwan Life Insurance Co., Ltd.	Investee Company of the Bank under the equity method
Taiwan Fire & Marine Insurance Co., Ltd.	Investee Company of the Bank under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee Company of the Bank under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee Company of the Bank under the equity method
Others	Major stockholders, supervisors, directors, managers and their relatives

2) Significant related-party transactions

1. Due from banks

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage due from banks	Amount	Percentage due from banks
Hua Nan Financial Holdings Co., Ltd.	<u>\$3,856</u>	<u>-</u>	<u>13,350</u>	<u>0.01</u>

Interest rates of related-party transactions are the same as those with other banks.

2. Due to banks

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage due to banks	Amount	Percentage due to banks
Hua Nan Financial Holdings Co., Ltd.	\$198,946	0.18	294,911	0.25
Taiwan Business Bank	120,751	0.11	68,054	0.06
	<b>\$319,697</b>	<b>0.29</b>	<b>362,965</b>	<b>0.31</b>

Interest rates of related-party transactions are the same as those with other banks.

3. Call loans to banks (included in due from banks):

January 1 to December 31, 2003				
Name	Highest balance	Ending balance	Interest income	Annual interest rate
Hua Nan Financial Holdings Co., Ltd.	14,495,342	4,453,738	36,865	0.045%~2.8%
Taiwan Business Bank	1,359,920	1,359,920	2,957	1.1%~1.57%
	<b>15,855,262</b>	<b>5,813,658</b>	<b>39,822</b>	

January 1 to December 31, 2002				
Name	Highest balance	Ending balance	Interest income	Annual interest rate
Hua Nan Financial Holdings Co., Ltd.	13,755,940	2,086,800	38,064	1.20%~2.32%
Taiwan Business Bank	699,812	173,900	60	1.72%~1.75%
	<b>14,455,752</b>	<b>2,260,700</b>	<b>38,124</b>	

Interest rates of related-party transactions are the same as those with other banks.

4. Call loans from banks (included in due to banks):

January 1 to December 31, 2003				
Name	Highest balance	Ending balance	Interest income	Annual interest rate
Hua Nan Financial Holdings Co., Ltd.	13,819,009	1,176,331	46,906	0%~1.45%
Taiwan Business Bank	3,232,810	1,461,914	24,067	0.85%~1.36%
	<b>17,051,819</b>	<b>2,638,245</b>	<b>70,973</b>	

January 1 to December 31, 2002				
Name	Highest balance	Ending balance	Interest income	Annual interest rate
Hua Nan Financial Holdings Co., Ltd.	12,582,040	2,191,140	49,519	1.28%~2.19%
Taiwan Business Bank	3,376,978	3,376,978	28,225	1.21%~1.97%
	<b>15,959,018</b>	<b>5,568,118</b>	<b>77,744</b>	

Interest rates of related-party transactions are the same as those with other banks.

## 5. Loans

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage of loans	Amount	Percentage of loans
Tang-Eng Iron Works Co., Ltd.	\$ 1,600,971	0.15	1,487,735	0.13
Others	1,255,552	0.12	1,148,616	0.10
	<b>\$ 2,856,523</b>	<b>0.27</b>	<b>2,636,351</b>	<b>0.23</b>

## 6. Deposits

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage of deposits	Amount	Percentage of deposits
Taiwan Life Insurance Co., Ltd.	\$ 6,162	-	10,031	-
Kaohsiung Ammonium Sulfate Co., Ltd.	79,991	0.01	272,040	0.01
Taiwan Fire & Marine Insurance Co., Ltd.	617,440	0.03	348,000	0.02
	<b>\$ 703,593</b>	<b>0.04</b>	<b>630,071</b>	<b>0.03</b>

Apart from an interest rate limit on staff saving deposits, interest rates of related-party transactions are the same as those with other banks.

## 7. Insurance expense (booked as operating expense)

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage of insurance expense	Amount	Percentage of insurance expense
Taiwan Fire & Marine Insurance Co., Ltd.	\$ 47,139	0.34	45,509	0.31

## 8. Compensation income (booked as non-operating income)

Name	December 31, 2003		December 31, 2002	
	Amount	Percentage of compensation income	Amount	Percentage of compensation income
Taiwan Fire & Marine Insurance Co., Ltd.	\$ 16,682	0.83	-	-

## (25) Pledged Assets

Pledged for	December 31, 2003	December 31, 2002
Guarantee deposit for provisional seizure against defaulted loans and others	\$ 1,748,400	1,788,800
Guarantee deposit for securities trading	229,679	213,888
Guarantee deposit for trust business compensation Reserve	50,000	50,000
Subtotal (accounted as marketable securities -bonds)	2,028,079	2,052,688
NCDs (accounted as cash)	14,000,000	-
	<b>\$ 16,028,079</b>	<b>2,052,688</b>

## (26) Commitments

### 1) Construction in progress and significant purchase agreements

The details of construction in progress and significant purchase agreements are as follows:

	<b>December 31, 2003</b>	
	<b>Contract price</b>	<b>Unpaid portion of contract price</b>
Construction contract:		
Construction of Yuanshan Branch	\$ 195,820	-
Warehouse construction in northern area	119,500	-
Construction of information building	428,000	392,810
Construction of Chia-Bei Branch	76,390	-
<b>Total</b>	<b>\$ 819,710</b>	<b>392,810</b>

	<b>December 31, 2002</b>	
	<b>Contract price</b>	<b>Unpaid portion of contract price</b>
Construction contract:		
Construction of Taichung Harbor Branch	\$ 376,847	-
Construction of information building	34,265	30,130
Construction of Chia-Bei Branch	85,000	6,164
Construction of Wu-Chi Branch	46,239	-
Construction of Yuanshan Branch	234,018	4,763
Warehouse construction in northern area	125,085	1,188
Warehouse construction in Tainan	143,257	-
<b>Total</b>	<b>\$ 1,044,711</b>	<b>42,245</b>

### 2) Operating leases

The Bank has entered into certain operating leases for its branches. As of December 31, 2003, estimated future lease contract commitments for rent were as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2004	\$ 230,979
2005	162,742
2006	87,519
2007	58,892
2008	22,550
	<b>\$ 562,682</b>

### 3) Others

	<b>December 31, 2003</b>	<b>December 31, 2002</b>
Collections for customers	\$ 115,965,278	119,236,974
Contract guarantee on behalf of counter-parties	222,773	93,584
Traveler's checks held on consignment	1,225,328	1,205,961
Marketable securities held as custodian	1,114,518,998	663,140,972
	<b>\$ 1,231,932,377</b>	<b>783,677,491</b>
Short-term bills and government bonds under repurchase agreement	<b>\$ 410,348</b>	<b>3,497,382</b>
Short-term bills under resale agreement	<b>\$ 34,551,439</b>	<b>68,978,982</b>

4) Balance sheet and details of trust

<b>Trust assets</b>	<b>Amount</b>
Short-term investment	
Investment in funds	\$ 6,914,151
Investment in bonds	78,364
Deposits	
Deposits in the Bank	9,394,575
Receivables	
Interest receivable	34,649
Interest on securities receivable	1,959
Prepaid expenses	952
Other assets	18,288
<b>Total</b>	<b>\$ 16,442,938</b>
Trust liabilities	
Trust capital	<b>\$ 16,442,938</b>
<b>Details of trust</b>	<b>Amount</b>
Short-term investment	
Investment in funds	\$ 6,914,151
Investment in bonds	78,364
Deposits	
Deposits in the Bank	9,394,575
Receivables	
Interest receivable	34,649
Interest on securities receivable	1,959
Prepaid expenses	952
Other assets	18,288
<b>Trust capital</b>	<b>\$ 16,442,938</b>

## (27) Others

1) Capital adequacy ratio

According to the Banking Law and related regulations, to establish a sound financial basis, the capital adequacy ratio must be no less than 8%. If the actual ratio were below the required standards, the related authority would restrict the use of accumulated earnings. As of December 31, 2003 and 2002, the capital adequacy ratio of the Bank was 14.62% and 15.56%, respectively.

2) The average amount of assets and liabilities, as well as the current rate, is disclosed as follows:

	<b>December 31, 2003</b>		<b>December 31, 2002</b>	
<b>Assets</b>	<b>Average value</b>	<b>Average rate (%)</b>	<b>Average value</b>	<b>Average rate (%)</b>
Call loans to banks	\$ 103,130,658	1.89	110,258,972	2.62
Due from Central Bank	47,568,522	1.75	46,106,231	2.25
Bills and securities purchased	224,431,386	2.37	248,092,664	2.97
Loans, discounts and bills purchased	1,145,995,003	6.31	1,208,617,355	6.64
<b>Liabilities</b>				
Due to Central Bank	\$ 11,493,818	-	10,687,149	-
Due to banks	149,506,844	1.073	109,474,379	1.93
Savings deposits	74,800,959	0.33	65,992,830	0.99
Demand savings deposits	240,771,382	0.83	204,454,735	1.78
Time savings deposits	1,068,045,848	2.21	1,011,121,111	2.24
Time deposits	275,836,094	1.91	330,836,257	2.07
Borrowed from Central Bank and other banks	10,068,264	1.36	9,849,696	2.15

3) Maturity analysis of assets and liabilities:

The maturity period is recognized as the remaining period to maturity from the balance sheet date. The assets and liabilities were analyzed by the specific period; if there was no specific period to maturity, the assets and liabilities were analyzed based on the net realizable value or on the expected maturity date.

(expressed in millions of New Taiwan dollars)

<b>December 31, 2003</b>			
	<b>Within a year</b>	<b>Over a year</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 413,111	47,240	460,351
Due from banks	88,302	2,408	90,710
Due from Central Bank	88	267,169	267,257
Bills and securities purchased	166,031	74,104	240,135
Receivables	14,762	27,241	42,003
Long-term receivables	-	33,226	33,226
Loans, discounts and bills purchased	497,597	554,953	1,052,550
<b>Liabilities</b>			
Due to Central Bank	\$ -	7,525	7,525
Due to banks	84,002	24,727	108,729
Payables	21,741	30,138	51,879
Deposits accepted, remittances and bank bonds payable	1,178,014	826,720	2,004,734
Borrowed from Central Bank and other Banks	10,255	-	10,255

<b>December 31, 2002 (restated)</b>			
	<b>Within a year</b>	<b>Over a year</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 252,544	-	252,544
Due from banks	94,880	3,042	97,922
Due from Central bank	205,955	82,717	288,672
Bills and securities purchased	107,511	152,828	260,339
Receivables	22,202	23,918	46,120
Loans, discounts and bills purchased	413,830	737,044	1,150,874
<b>Liabilities</b>			
Due to Central Bank	\$ -	15,750	15,750
Due to banks	91,052	26,547	117,599
Payables	35,773	14,885	50,658
Deposits accepted, remittances and bank bonds payable	1,215,281	715,995	1,931,276
Borrowed from Central Bank and other banks	10,036	-	10,036

4) Account reclassification

Certain amounts in the 2002 financial statements have been reclassified in conformity with the 2003 presentation. None of the reclassifications have a significant effect on the financial report presentation.



## VI. CPA-Audited Consolidated Financial Statements for 2003

(None)

## VII. Review and Analysis of Financial Status and Operating Results for 2003

### 1. Analysis of Financial Status

The Bank's total assets for this year amounted to NT\$2,394,595 million of which liquid assets accounted for NT\$1,149,715 million or 48.01% of the total; loans, and exchange bills negotiated and discounted accounted for NT\$1,048,030 million or 43.77%; long-term fund investment and receivables accounted for NT\$73,087 million or 3.05%; fixed assets made up NT\$94,737 million or 3.96%; and intangibles and other assets accounted for NT\$29,026 million or 1.21%. Liabilities totalled NT\$2,236,252 million amounting to 93.39% of all assets; of this total, liquid liabilities made up NT\$175,444 million or 7.33% of the overall amount; deposits, remittances, and financial debentures accounted for NT\$2,004,734 million or 83.72%; funds due to the Central Bank and other banks accounted for NT\$10,255 million or 0.43%; long-term liabilities accounted for NT\$43,691 million or 1.82%; and other liabilities accounted for NT\$2,128 million or 0.09%. Owners' equity amounted to NT\$158,343 million equal to 6.61% of total assets; of the total, capital amounted to NT\$48,000 million or 2%; capital surplus and earnings amounted to NT\$110,188 million or 4.60% of total assets; and the amount of equity adjustment was NT\$155 million or 0.01%.

### 2. Operating Results

Unit: NT1,000

Year Items	FY 2003	FY 2002 (restated)	Increase or Decrease	Rate of Change (%)
Revenues				
Operating revenues	64,719,528	89,731,261	-25,011,733	-27.87
Non-operating income	5,443,254	691,020	4,752,234	687.71
Total revenues	70,162,782	90,422,281	-20,259,499	-22.41
Expenses				
Operating costs	47,878,470	71,267,194	-23,388,724	-32.82
Operating expenses	13,988,568	14,625,663	-637,095	-4.36
Non-operating expenses	1,192,710	581,300	611,410	105.18
Income tax expense	1,659,479	3,467,166	-1,807,687	-52.14
Total expenses	64,719,227	89,941,323	-25,222,096	-28.04
Net income (or Net loss - )	5,443,555	480,958	4,962,597	1,031.82

Notes: 1. The reduction in operating revenues was caused mainly by a decline in interest income, gains from bills dealing and long-term equity investments.

2. The reduction in operating costs was caused mainly by a decline in deposit interest rates and a drop in interest costs.

3. The decrease in income tax expense was caused mainly by a conversion of deferred income tax assets from 2002.



# **Special Notes**

## **I. Information on Affiliated Enterprises**

In accordance with Article 2 of the Regulations Governing the Compilation of Consolidated Business Reports, Financial Statements, and Affiliated Reports of Business Groups, publicly issued companies that conform to the description of controlling companies as contained in the chapter of the Regulations on affiliated enterprises must, at the conclusion of each business year, compile consolidated business reports and consolidated financial statements for the business group. Since the Bank of Taiwan is not a publicly issued company, it is not required to compile such consolidated business reports and financial statements.

## **II. Stock Dividend Policy and Status of Implementation**

1. The Bank's policy on distribution is to first allocate 30% as legal reserve and then 40% as special reserve, then there is the allocation of dividends and bonuses to the central government, with the remainder left as undistributed income.
2. Under the provisions of Article 50 of the Banking Law, until the legal reserve reaches the amount of paid-in capital, the amount of earnings distributed as cash may not exceed 15% of total capital. The Law also stipulates that when legal reserves reach the amount of capital, this restriction no longer applies.

## **III. Implementation of the Internal Controls System**

### **1. Implementation of the Internal Control System**

The BOT has compiled operating rules and manuals for each of its areas of business, and the rules and manuals are continuously amended in line with actual business needs so that they can serve as a basis for carrying out business in the various areas. Computer operations and security controls have also been established, along with internal auditing and self-auditing regulations, so as to control operating risk and assure regulatory compliance.

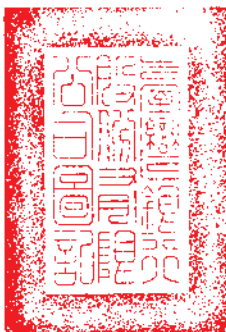
To assure the effective implementation of internal controls, each unit is required to designate a deputy head of unit to be responsible for supervising monthly self-auditing operations. In 2003, the Auditing Office of the Board of Directors sent auditing personnel to visit each domestic business unit, information unit, and financial custodianship unit on an unscheduled basis to carry out at least one full-scope examination and one special-scope examination per year. Auditors were also sent to examine overseas business units. When a deficiency is discovered during an examination, the unit concerned is asked to make improvements within a designated time limit. The self-examination performance of each unit is also examined in accordance with the Regulations Governing Internal Self-Investigating and Auditing, and Rewards and Punishments in order to attain the goal of effective internal controls.

## 2. Statements of Internal Controls

### (1) To the Ministry of Finance

#### Statement of Internal Controls of the Bank of Taiwan

On behalf of the Bank of Taiwan we declare that during the period of Jan. 1, 2003 through Dec. 31, 2003 the Bank of Taiwan did conform to the provisions of the "Enforcement Regulations for Bank Internal Audit Control System" by establishing an internal controls system and carrying out risk management, and by having auditing carried out by an impartial and independent auditing unit, with reports submitted on a regular basis to the Boards of Directors and Supervisors. Careful assessment shows that with the exception of items listed in the attached chart, the internal control systems of and compliance with laws and regulations by the different units were all implemented effectively.



Attestor

President: Sheng-Yann Lii

Executive Vice President and General Auditor: Teh-Chien Su

Headquarters Legal Compliance Official: Wu-Shiung Chou

January 30, 2004

## (2) Statement of Internal Controls of the Bank of Taiwan

### Statement of Internal Controls of the Bank of Taiwan

Apr. 16, 2004

The results of a self-investigation of internal controls for the Bank of Taiwan covering the period of Jan.1-Dec. 31, 2003 are as follows:

1. The Bank fully realizes that the establishment, implementation, and maintenance of a system of internal controls is the responsibility of its Board of Directors and management-level staff, and such a system has in fact been established. The goal of this system is to provide reasonable assurance of the achievement of targets in the areas of operating effectiveness and efficiency (including profits, performance, and protection of asset security), the reliability of financial reports, and compliance with relevant laws.
2. An internal control system has inherent limitations; and however comprehensive its planning may be, an effective internal control system can provide only reasonable assurance that the three targets listed above will be achieved. In addition, the effectiveness of an internal control system may change along with changes in the environment or other conditions. The Bank's internal control system has a self-supervisory function, however, and as soon as deficiencies are recognized the Bank takes action to rectify them.
3. The Bank judges the effectiveness of the design and implementation of its internal control system in accordance with the stipulations of the internal control judgment items contained in the "Guidelines for Establishment of Internal Control Systems in Securities and Futures Service Enterprises" (hereinafter referred to as "the Guidelines") promulgated by the Securities and Futures Commission of the Ministry of Finance. The internal control judgment items contained in the Criteria divide internal controls into five constituent elements according to the management control process: (1) control environment, (2) evaluation of risk, (3) control operation, (4) information and communication, and (5) supervision. Each of these constituent items itself contains a number of items. For details regarding the items listed above, please refer to the stipulations of the Criteria.
4. The Bank uses the internal control judgment items listed above to evaluate the effectiveness of the design and implementation of its internal control system.
5. Based on the results of the evaluation described in the previous paragraph, the Bank is conscious that during the period given above its internal control system (including supervision of the Fengshan, Anping, and Minchuan branches), including operational effectiveness and degree of achievement of efficiency target, the reliability of financial reporting, and compliance with related laws and orders, were effective and able to reasonably assure the attainment of the above-listed targets.
6. This Statement will become a major content of the Bank's Annual Report. Any falsehood, omission, or other illegality will incur legal responsibility under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement was passed by the Board of Directors of the Bank of Taiwan on Apr. 16, 2004, with the 15 directors present approving its contents unanimously.



**Bank of Taiwan**

Chairman: Mu-Tsai Chen

President: Sheng-Yann Lii

#### **IV. Legal Violations Resulting in Punishment, Major Deficiencies During the Past Two Years, and Status of Improvement**

##### **1. Indictment of officials and employees for crime committed in the performance of duty during the past two years**

In the case of the misuse of vault-cash by an employee of the Matsu Branch, the employee concerned was given two major demerits and dismissed from service in accordance with regulations. In the resulting criminal case, the district court imposed a prison sentence of three years and four months along with deprivation of civil rights for five years. The case is currently under appeal in the high court.

##### **2. Violations of the Banking Law resulting in fines during the past two years**

(None)

##### **3. Deficiencies resulting in severe disciplinary action by the Ministry of Finance during the past two years**

(None)

##### **4. Major security incidents occurring during the past two years as a result of staff malpractice or major unexpected incidents (such as armed robbery, major theft, fire, or violence), or of failure to observe the Guidelines for the Maintenance of Security in Financial Institutions, the losses from which exceeded NT\$50 million during one or both of the years**

- (1) A "needlepoint camera" was installed in the automated service unit (providing 24-hour automatic services) of the BOT's Tainan Branch in August and September 2003, and a depositor of the Tainan Branch discovered, when withdrawing funds from the automated service unit, that deposits had been stolen. The guilty parties have been punished in accordance with regulation. The Bank has abolished the card-swipe control for entry to its automated service units, and has strengthened ATM management measures.
- (2) The Japanese financial authority sent personnel to carry out on-site inspections of the business operations and legal compliance of the Tokyo Branch two times, in May and August, 2003. The inspections uncovered that the Branch had committed violations of rules governing OBU transaction accounts over several years. In addition to an administrative order disposing of the matter and the making of supplementary payment of taxes due from the borrowers in offshore loan transactions as well as late payments and fines, to a total of 355,142,697 yen, the delinquent employees were punished in accordance with regulations. The BOT has directed the Tokyo Branch to carry out a review of its positions on a daily basis so as to prevent an excess of inflow, and has applied to join the Japanese bankers' association. It has established the task of collecting information on laws and regulations, and is carrying out legal compliance measures.

##### **5. Other matters requiring disclosure under instructions from the Ministry of Finance**

(None)

#### **V. Major Resolutions**

1. This Company is the result of the corporatization of the Bank of Taiwan, and the Company assumes the pre-reorganization rights and obligations of the Bank in their entirety. The corporate charter, regulations for shareholders' meetings, regulations governing the election of directors and supervisors, and reorganization base date of July 1, 2003 were approved by the Ministry of Finance, and were affirmed by a resolution of the first meeting of the First Board of Directors on July 1, 2003.
2. The first meeting of the First Board of Directors resolved on the election of directors Mu-Tsai Chen, Sheng-Yann Lii, Syue-Ming Yu, Chih-Hung Chang, and Der-shan Wang as the first Board of Managing Directors.
3. The first meeting of the First Board of Managing Directors on July 1, 2003 resolved on the election of Mu-Tsai Chen as the first chairman of the Bank.

#### **VI. Other Matters for Supplementary Explanation**

(None)



# **Directory of Head Office and Branches**



## I. DOMESTIC BUSINESS UNITS

120, Sec. 1, Chongcing South Road, Jhongjheng District,  
Taipei City 100, Taiwan (R.O.C.) P.O.Box 5 or 305  
SWIFT : BKTWTWTP

TELEX: 11201 TAIWANBK

<http://www.bot.com.tw>

CODE	OFFICE	SWIFT	ADDRESS	TELEPHONE	FAX
0037	Department of Business (I)	BKTWTWTP	120 Sec 1, Chongcing South Road, Jhongjheng District, Taipei City	02-23493399	02-23759708
0059	Department of Public Treasury	BKTWTWTP	120 Sec 1, Gueiyang Street, Jhongjheng District, Taipei City	02-23615420	02-23751125
0071	Department of Business (II)	BKTWTWTP 007	49 Guancian Road, Jhongjheng District, Taipei City	02-23812949	02-23753800
0082	Department of Trusts	BKTWTWTP	58 Sec 1, Chongcing South Road, Jhongjheng District, Taipei City	02-23618030	02-23821846
0691	Offshore Banking Branch	BKTWTWTP 069	1F, 3 Baocing Road, Jhongjheng District, Taipei City	02-23493456	02-23894500
1850	Department of Electronic Banking	BKTWTWTP	4F, 120 Sec 1, Gueiyang Street, Jhongjheng District, Taipei City	02-23494567	02-23893999
1698	Department of Securities	BKTWTWTP	2F, 58 Sec 1, Chongcing South Road, Jhongjheng District, Taipei City	02-23882188	02-23716159
0093	Tainan Branch	BKTWTWTP 009	155 Sec 1, Fucian Road, Central District, Tainan City	06-2160168	06-2160188
0107	Taichung Branch	BKTWTWTP 010	140 Sec 1, Zhiyou Road, West District, Taichung City	04-22224001	04-22224274
0118	Kaohsiung Branch	BKTWTWTP 011	264 Jhongjheng 4th Road, Cianjin District, Kaohsiung City	07-2515131	07-2211257
0129	Keelung Branch	BKTWTWTP 012	16 YiYi Road, Jhongjheng District, Keelung City	02-24247113	02-24220436
0130	Chungshin New Village Branch	BKTWTWTP 013	11 Guanghua Road, Jhongsing Village, Nantou City, Nantou County	049-332101	049-2350457
0141	Chiayi Branch	BKTWTWTP 014	306 Jhongshan Road, Chiayi City	05-2224471	05-2258400
0152	Hsinchu Branch	BKTWTWTP 015	29 Linsen Road, Hsinchu City	03-5266161	03-5266446
0163	Changhua Branch	BKTWTWTP 016	130 Chenggong Road, Changhua City, Changhua County	04-7225191	04-7257871
0174	Pingtung Branch	BKTWTWTP 017	43 Jhongshan Road, Pingtung City, Pingtung County	08-7328141	08-7322309
0185	Hualien Branch	BKTWTWTP 018	3 Gongyuan Road, Hualien City, Hualien County	03-8322151	03-8322404
0196	Yenping Branch	BKTWTWTP 019	406 Nanjing West Road, Datong District, Taipei City	02-25522859	02-25524317
0200	Chungshan Branch	BKTWTWTP 020	150 Sec 1, Jhongshan North Road, Jhongshan District, Taipei City	02-25423434	02-25710210
0211	Kaohsiung Expot Processing Zone Branch	BKTWTWTP 021	1 Jhongyi Road, Export Processing, Cianjhen District, Kaohsiung City	07-8215141	07-8115648
0222	ilan Branch	BKTWTWTP 022	1 Jhongshan Road, Yilan City, Yilan County	03-9355121	03-9355822
0233	Taitung Branch	BKTWTWTP 023	313 Jhongshan Road, Taitung City, taitung County	089-324201	089-311608
0244	Penghu Branch	BKTWTWTP 024	24 Ren-ai Road, Magong City, Penghu County	06-9279935	06-9272347
0255	Fengshan Branch	BKTWTWTP 025	20 Caogong Road, Fongshan City, Kaohsiung County	07-7416131	07-7433478
0266	Taoyuan Branch	BKTWTWTP 026	46 Jhongjheng Road, Taoyuan City, Taoyuan County	03-3352801	03-3322007
0277	Panchiao Branch	BKTWTWTP 027	21 Fujhong Road, Banciao City, Taipei County	02-29680172	02-29676416
0288	Hsinying Branch	BKTWTWTP 028	10 Jhongjheng Road, Sinying City, Tainan County	06-6351111	06-6321843
0299	Miaoli Branch	BKTWTWTP 029	510 Jhongjheng Road, Miaoli City, Miaoli County	037-326791	037-327111
0303	Fengyuan Branch	BKTWTWTP 030	302 Jhongjheng Road, Fongyuan City, Taichung County	04-5278686	04-25256981
0314	Touliu Branch	BKTWTWTP 031	27 Wunhua Road, Douliou City, Yunlin County	05-5324155	05-5338309
0325	Nantou Branch	BKTWTWTP 032	101 Fusing Road, Nantou City, Nantou County	049-232121	049-2229845
0336	Nanmen Branch	BKTWTWTP 033	120 Sec 1, Nanchang Road, Jhongjheng District, Taipei City	02-23512121	02-23964281
0347	Kungkuan Branch	BKTWTWTP 034	120 Sec 4, Roosevelt Road, Jhongjheng District, Taipei City	02-23672581	02-23698237
0358	Tzoyin Branch	BKTWTWTP 035	19 Zuoying Avenue, Zuoying District, Kaohsiung City	07-5819141	07-5850051
0369	Peitou Branch	BKTWTWTP 036	152 Sec 1, Jhongyang South Road, Beitou District, Taipei City	02-28951200	02-28973345
0370	Wufeng Branch	BKTWTWTP 037	838 JhongJheng Road, Wufong Township, Taichung County	04-3302216	04-23327104
0381	Kinmen Branch	BKTWTWTP 038	4 Fusing Road, Jinhu Township, Kinmen County, Fuchien Province	0823-33711	082-333719
0392	Matsu Branch	BKTWTWTP	257 Wunhua Road, jieshou Village, Nangan Township, Lienchiang County, Fuchien Province	0836-25490	0836-25801
0406	Anping Branch	BKTWTWTP 040	240 Jhongjheng Road, Central District, Tainan City	06-2292181	06-2241520
0417	Chungli Branch	BKTWTWTP 041	580 Yanping Road, Jhongli City, Taoyuan County	03-4252160	03-4258751
0428	Sanchung Branch	BKTWTWTP 042	39 Sec 4, Chongsin Road, Sanchong City, Taipei County	02-29719621	02-29719736
0439	Toufen Branch	BKTWTWTP 043	65 Jhongjheng Road, Toufen Township, Miaoli County	037-663451	037-672213
0440	Chienchen Branch	BKTWTWTP 044	1-3 Kuojian Road, Cianjhen District, Kaohsiung City	07-8115171	07-8413413
0451	Chengchung Branch	BKTWTWTP 045	47 Cingdao East Road, Jhongjheng District, Taipei City	02-23218934	02-23918761
0462	Minchuan Branch	BKTWTWTP 046	239 Sec 2, Chengde Road, Datong District, Taipei City	02-25530121	02-25529463
0473	Tantzu Branch	BKTWTWTP 047	1 Jianguo Road, Tanzih Township, Taichung County	04-25323133	04-25339071
0484	Yungho Branch	BKTWTWTP 048	97 Sec 1, Yonghe Road, Yonghe City, Taipei County	02-29216611	02-29233793
0495	Yuanlin Branch	BKTWTWTP 049	63 Minsheng Road, Yuanlin Township, Changhua County	04-8323191	04-8330663
0509	Sungchiang Branch	BKTWTWTP 050	115 Songjiang Road, Jhongshan District, Taipei City	02-25069421	02-25078786
0510	Kusan Branch	BKTWTWTP 051	23 Linhai 1st Road, Gushan District, Kaohsiung City	07-5218291	07-5315544
0521	Lungshan Branch	BKTWTWTP 052	380 Kangding Road, Wanhua District, Taipei City	02-23088111	02-23366952
0532	Chunghsiao Branch	BKTWTWTP 053	202 Sec 1, Dunhua South Road, Da-an District, Taipei City	02-27516091	02-27411704
0543	Hsinyi Branch	BKTWTWTP 054	88 Sec 2, Sinyi Road, Da-an District, Taipei City	02-23515486	02-23973887
0554	Fuhsing Branch	BKTWTWTP 055	102 Sec 4, Fusing Road, East District, Taichung City	04-22244181	04-22205856
0565	Sanming Branch	BKTWTWTP 056	567 Jiouru 2nd Road, Sanmin District, Kaohsiung City	07-3127143	07-3215350
0576	Taichung Harbor Branch	BKTWTWTP 057	2 Sihwei Road, Wuci Township, Taichung County	04-26562311	04-26571772

CODE	OFFICE	SWIFT	ADDRESS	TELEPHONE	FAX
0587	Lotung Branch	BKTWWTWP 058	93 Gongjheng Road, Ludong Township, Yilan County	03-9576866	03-9560622
0598	Puli Branch	BKTWWTWP	112 Dongrong Road, Puli Township, Nantou County	049-983991	049-2995949
0602	Kangshan Branch	BKTWWTWP 060	16 Shoutian Road, Gangshan Township, Kaohsiung County	07-6216141	07-6214853
0613	Hsingsing Branch	BKTWWTWP 061	133 Minzu 2nd Road, Sinsing District, Kaohsiung City	07-2384611	07-2387374
0624	Lingya Branch	BKTWWTWP 062	261 Cingnian 1st Road, Lingya District, Kaohsiung City	07-3358700	07-3327904
0646	Sungshan Branch	BKTWWTWP 064	560 Sec 4, Jhongsiao East Road, Sinyi District, Taipei City	02-27293111	02-27230014
0657	Chienhsing Branch	BKTWWTWP 065	144 Jhongjheng Road, Central District, Taichung City	04-22242141	04-22273142
0668	Chunggho Branch	BKTWWTWP 066	253 Sec 2, Jhongsan Road, Jhonghe City, Taipei County	02-22488980	02-22461474
0679	Taipao Branch	BKTWWTWP	2 East Section, Sianghe 1st Road, Sianghe Village, Taibao City, Chiayi County	05-3620016	05-3620021
0680	Chupei Branch	BKTWWTWP	16 Guangming 6th Road, Jhubei City, Hsinchu County	03-5513111	03-5517322
0705	Shihlin Branc	BKTWWTWP 070	197 Sec 6, Jhongsan North Road, Shihlin District, Taipei City	02-28367080	02-28362523
0716	Hsinchuang Branch	BKTWWTWP 071	85 Sintai Road, Sinjhuang City, Taipei County	02-22056699	02-22031524
0727	Tachia Branch	BKTWWTWP 072	61 Minsheng Road, Dajia Township, Taichung County	04-26868111	04-26865224
0738	Science-Based Industrial Park Branch	BKTWWTWP 073	2F, 5 Industrial East 6th Rd, Science-Based Industrial Park, Hsinchu City	03-5770050	03-5777936
0749	Shulin Branch	BKTWWTWP 074	29 Wunhua Street, Shulin City, Taipei County	02-26866511	02-26861307
0750	Hsintien Branch	BKTWWTWP 075	45 Baojhong Road, Sindian City, Taipei County	02-29180795	02-29105461
0794	Liming Branch	BKTWWTWP 079	6-1 No 37 Liming Road, Nantun District, Taichung City	04-22551178	04-22524822
0808	Minsheng Branch	BKTWWTWP 080	167 Fusing North Road, Songshan District, Taipei City	02-27192081	02-27188897
0819	Yungkang Branch	BKTWWTWP 081	513 Siaodong Road, Yongkang City, Tainan County	06-2385411	06-3138709
0820	Sandou Branch	BKTWWTWP 082	142 Singuang Road, Lingya District, Kaohsiung City	07-3349341	07-3336835
0853	Taipei World Trade Center Branch	BKTWWTWP 085	3F, 333 Sec 1, Jilong Road, Sinyi District, Taipei City	02-27200315	02-27576156
0864	Taan Branch	BKTWWTWP 086	165 Sec 4, Sinyi Road, Da-an District, Taipei	02-27553121	02-27093243
0875	Huachiang Branch	BKTWWTWP 087	293-2 Sec 1, Jhongsan Road, Banciao City, Taipei County	02-29610101	02-29638280
0886	Chaochou Branch	BKTWWTWP 088	13-2 Sinsheng Road, Chaozhou Township, Pingtung County	08-7883384	08-7883614
0897	Suao Branch	BKTWWTWP 089	97 Jhongsan Road, Su-ao Township, Yilan County	03-9962566	03-9963370
0901	Taya Branch	BKTWWTWP 090	106 Jhongcing South Road, Daya Township, Taichung County	04-25683330	04-25680164
0912	Nantze Branch	BKTWWTWP 091	166 Jiannan Road, Nanzih District, Kaohsiung City	07-3532115	07-3531484
0923	Taichung Industrial Park Branch	BKTWWTWP 092	196 Industrial Park 1st Road, Situn District, Taichung City	04-23597850	04-23599868
1067	Tunhwa Branch	BKTWWTWP 106	205 Dunhua North Road, Songshan District, Taipei City	02-25455111	02-25450913
1078	Nankang Branch	BKTWWTWP 107	95 Sec 2, Nangang Road, Nangang District, Taipei City	02-26516706	02-27839049
1089	Hoping Branch	BKTWWTWP 108	180 Sec 1, Heping East Road, Da-an District, Taipei City	02-23687027	02-23626987
1090	Shuinan Branch	BKTWWTWP 109	416 Sec 2, Chongde Road, Beitun District, Taichung City	04-22468130	04-22466855
1104	Chunglun Branch	BKTWWTWP 110	108 Sec 5, Nanjing East Road, Songshan District, Taipei City	02-27698618	02-27603224
1115	Tucheng Branch	BKTWWTWP 111	344 Sec 2, Jhongyang Road, Tucheng City, Taipei County	02-22703791	02-22603314
1159	CKS Airport Branch	BKTWWTWP	1, Neighbourhood 1, Jhuwei Village, Dayuan Township, Taoyuan County	03-3982166	03-3834834
1160	Tachang Branch	BKTWWTWP 116	540 Jiouru 1st Road, Sanmin District, Kaohsiung City	07-3891036	07-3806046
1182	Wuchia Branch	BKTWWTWP 118	168 Wujia 2nd Road, Fongshan City, Kaohsiung County	07-7170730	07-7233469
1193	Poi Branch	BKTWWTWP 119	394 Yucheng Road, Zuoying District, Kaohsiung City	07-5567690	07-5562613
1207	Chungchuang Branch	BKTWWTWP 120	339 Fongping 1st Road, Daliao Township, Kaohsiung County	07-7038838	07-7038964
1218	Pingchen Branch	BKTWWTWP 121	11 Sec 2, Huannan Road, Pinghen City, Taoyuan County	03-4945688	03-4945699
1229	Jenai Branch	BKTWWTWP 122	99 Sec 2, Ren-ai Road, Jhongjheng District, Taipei City	02-23975936	02-23975927
1230	Nankan Branch	BKTWWTWP 123	81 Sec 1, Nankan Road, Lujhu Township, Taoyuan County	03-3529191	03-3520916
1241	Yuanshan Branch	BKTWWTWP 124	577 Linsen North Road, Jhongsan District, Taipei City	02-25976699	02-25932760
1355	Wuku Branch	BKTWWTWP 135	42 Sec 4, Jhongsing Road, Wugu Township, Taipei County	02-22936699	02-22918201
1366	Tali Branch	BKTWWTWP 136	520 Sec 2, Guoguang Road, Dali City, Taichung County	04-24812211	04-24818448
1377	Annan Branch	BKTWWTWP 137	316 Sec 4, Anhe Road, Annan District, Tainan City	06-2555111	06-3565881
1414	Hsitwun Branch	BKTWWTWP 141	41 Sec 2, Cinghai Road, Situn District, Taichung City	04-23128528	04-23117106
1425	Tienmou Branch	BKTWWTWP 142	18 Sec 7, Jhongsan North Road, Shihlin District, Taipei City	02-28755222	02-28755219
1436	Lukang Branch	BKTWWTWP 143	2 Lugong Road, Lugang Township, Changhua County	04-27810168	04-7810268
1447	Neili Branch	BKTWWTWP 144	125 Singnong Road, Jhongli City, Taoyuan County	03-4618519	03-4519650
1469	Tainan Science-Based Industrial Park Branch	BKTWWTWP 146	2F, 15 Nanke 3rd Road, Sinshih Township, Tainan County	06-5051701	06-5051709
1470	Huwei Branch	BKTWWTWP	369 Sec 2, Linsen Road, Huwei Township, Yunlin County	05-6337367	05-6321611
1481	Tamsui Branch	BKTWWTWP 148	93 Jhongsan Road, Danshuei Township, Taipei County	02-26281111	02-26281122
1539	Neihu Branch	BKTWWTWP 153	396 Sec 1, Neihu Road, Neihu District, Taipei City	02-87977933	02-87977957
1540	Chiabei Branch	BKTWWTWP	602 Jhongsiao Road, Chiayi City"	05-2718911	05-2718922
1551	Tunhkang Branch	BKTWWTWP	114 Jhongjheng Road, Donggang Township, Pingtung County	08-8324231	08-8352545
1562	Hsichih Branch	BKTWWTWP 156	175 Sec 2, Datong Road, Sijhih City, Taipei County	02-86926822	02-86926828
1573	Wuchi Branch	BKTWWTWP 157	2 Jian 5th Road, Export Processing Zone, Wuci Township, Taichung County	04-26565111	04-26570157
1584	Putz Mini Branch	BKTWWTWP	35-1 Shantong Road, Pozih city, Chiayi County	05-3701100	05-3708877

CODE	OFFICE	SWIFT	ADDRESS	TELEPHONE	FAX
1595	Hsiaokang Mini Branch	BKTWTWTP	410 Hongping Road, Siaogang District, Kaohsiung City	07-8010399	07-8066029
1609	Chungping Branch	BKTWTWTP 160	9 Jhonghua Road, Pingtung City, Pingtung County	08-8334988	08-7320199
1621	Chunhsien Branch	BKTWTWTP	1 Jhongshan South Road, Jhongjheng District, Taipei City	02-23955411	02-23578831
1643	Peitalu Branch	BKTWTWTP	68 Beida Road, Hsinchu City	03-5354381	03-5354380
1654	Wenshan Mini Branch	BKTWTWTP	218 Sec 6, Roosevelt Road, Wunshan District, Taipei City	02-86635656	02-86635656
1665	Jian Mini Branch	BKTWTWTP	139 Sec 1, Jianguo Road, Beichang Village, Ji-an Township, Hualien County	03-8576000	03-8565495
1676	Nankuo Mini Branch	BKTWTWTP	326 Sec 2, Jhongshan Road, Changhua City, Changhua County	04-7272123	04-7272190
1687	Fucheng Mini Branch	BKTWTWTP	254 Sec 2, Mincyuan Road, Central District, Tainan City	06-2252168	06-2250936
1702	Taiping Branch	BKTWTWTP	146 Jhongsing East Road, Taiping City, Taichung County	04-22736666	04-22736120
1713	Defang Branch	BKTWTWTP	63 Sec 1, Defang Road, Dali City, Taichung County	04-24853280	04-24826661
1724	Chienkuo Branch	BKTWTWTP	35 Jianguo Road, Jhongli City, Taoyuan County	03-4225166	03-4255271
1735	Talun Branch	BKTWTWTP	312 Sec 3, Jhongjheng Road, Jhongli City, Taoyuan County	03-4983620	03-4984417
1746	Hsingnung Branch	BKTWTWTP	56 Singnong Road, Jhongli City, Taoyuan County	03-4550885	03-4550885
1757	Jenmei Branch	BKTWTWTP	33 Sec 4, Jhongshan East Road, Jhongli City, Taoyuan County	03-4663768	03-4663767
1779	Housheng Branch	BKTWTWTP	4-10 Minsheng Road, Rueiguang Village, Pingtung City	08-7210168	08-7210173
1768	Yenpu Branch	BKTWTWTP	37 Shengli Road, Yanjhong Village, Yanpu Township, Pingtung County	08-7932111	08-7932091
1780	Hsinwei Branch	BKTWTWTP	55 Pengcuo Road, Siner Village, Yanpu Township, Pingtung County	08-7932037	08-7935976
1791	Chenshing Branch	BKTWTWTP	60-4 Bo-ai Rd. Jhensing Village, Yanpu Township, Pingtung County	08-7020141	08-7021421
1805	Hsinyuan Branch	BKTWTWTP	65 Sianji Road, Sianji Village, Sinyuan Township, Pingtung County	08-8687705	08-8687505
1816	Nanshin Branch	BKTWTWTP	301 Nansing Road, Singnong Village, Sinyuan Township, Pingtung County	08-8352600	08-8352605
1827	Yinglong Branch	BKTWTWTP	187 Yanlong Road, Yanlong Village, Sinyuan Township, Pingtung County	08-8335869	08-8335867
1838	Shintong Branch	BKTWTWTP	230 Pinghe Road, Sindong Village, Sinyuan Township, Pingtung County	08-8686307	08-8686309
1861	East Taoyuan Branch	BKTWTWTP	300 Jingguo Road, Taoyuan City, Taoyuan County	03-3263888	03-3265666
1872	Lujhou Branch	BKTWTWTP	50 Sanmin Road, Lujhou City, Taipei County	02-82868686	02-82868989
1919	Kaohsiung Airport Branch	BKTWTWTP	2 Jhongshan 4th Road, Siaogang District, Kaohsiung City	07-8017564	07-8022004
1920	Keelung Port Mini Branch	BKTWTWTP	2F, 6 Gangsi Street, Keelung City	02-24289763	02-24283186
1931	Juengji Mini Branch	BKTWTWTP	3F, 3 Songren Road, Taipei City	02-27209856	02-27209970
1942	Tungmen Mini Branch	BKTWTWTP	42 Sec 1, Renai Road, Taipei City	02-23943168	02-23916855
1953	Aiguo Mini Branch	BKTWTWTP	31 Aiguo East Road, Taipei City	02-23960017	02-23578646
1964	Kaorung Mini Branch	BKTWTWTP	386 Daihong 1st Road, Zuoying District, Kaohsiung City	07-3460972	07-3460973
1975	Baoqing Mini Branch	BKTWTWTP	35 Baoqing Road, Taipei City	02-23311141	02-23319444
1997	Jincheng Mini Branch	BKTWTWTP	156 Mincyuan Road, Jincheng Township, Kinmen County	082-325145	082-321497
2053	Peifu Mini Branch	BKTWTWTP	B1, 161 Sec 1, Jhongshan Road, Banciao City Taipei County	02-89535968	02-89535268

## II. Overseas Units

Branch	SWIFT	Address	Telephone	FAX
New York Agency	BKTWUS33	Wall Street, 11th Floor New York, NY 10005 U.S.A.	1-212-968-8128	1-212-968-8370
Amsterdam Branch	BKTWNL2A	World Trade Center, Strawinskylaan 655 1077 XX Amsterdam, The Netherlands	31-20-671-3399	31-20-671-1031
Los Angeles Branch	BKTWUS6L	Sanwa Bank Plaza, Figueroa at Wilshire 601 S. Figueroa Street, Suite 4525 Los Angeles, CA 90017 U.S.A.	1-213-629-6600	1-213-629-6610
Hong Kong Branch	BKTWHKHH	4th Fl., 9 Queen's Road Central, Hong Kong	852-2521-0567	852-2869-4957
Singapore Branch	BKTWSGSG	80 Raffles Place #28-20 UOB Plaza 2, Singapore 048624	65-65365536	65-6536-8203
Tokyo Branch	BKTWJPJT	7F Fukoku Seimei Bldg., 2-2 Uchisaiwaicho 2-Chome Chiyoda-Ku, Tokyo 100, Japan	813-3504-8881	813-3504-8880
South Africa Branch	BKTWZAJJ	No.11, Cradock Ave. Rosebank 2196 Johannesburg, South Africa	27-11-880-8008	27-11-447-1868

Representative Office	Address	Telephone	FAX
London Representative Office	Level 5, City Tower 40 Basinghall Street London, EC2V 5DE U.K.	44-20-7382-4530	44-20-7374-8899